

# Investment Perspective



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## ORB International Enhanced Income (An offer of YIELDS2)

ORB IEI 2 is an offer to invest in Yield Income Enhanced Listed Deferred Securities 2 (YIELDS2), a hybrid security issued by Citigroup Global Markets Australia Pty Limited (CGMA). Lonsec Limited (Lonsec) has reviewed this latest capital protected offering from CGMA. YIELDS2 is an invitation to purchase a six-year product that provides exposure to the performance of a diversified portfolio of stocks that comprise the Dow Jones Global Titans 50 Index. YIELDS2 targets a 12% pa (net of fees) return, payable quarterly in arrears, whilst providing investors with a Capital Guarantee covering 100% of the initial investment amount. Following our review, Lonsec has added YIELDS2 to the Lonsec Recommendations List with an 'Investment Grade' rating.

Given the structure of the Capital Guarantee, this investment is only suitable for investors who are comfortable with the creditworthiness of Citigroup. Investors need to be aware that they cannot rely on YIELDS2 solely as an income product because there are possible circumstances in which the quarterly distributions could fall to zero and remain at that level for an extended period.

### Investment Overview

<b>Product type</b>	A 'unitised contract' providing investors with exposure to the performance of the Income Plus Trading Strategy (IPTS) in conjunction with a Capital Guarantee.
<b>Underlying investment strategy</b>	YIELDS2 are linked to the performance of the IPTS, a proprietary trading model developed by the Strategy Sponsor (Citigroup Global Markets Limited "CGML") that seeks to generate a potentially high level of income and capital growth by notionally investing in 30 shares selected from the Dow Jones Global Titans 50 Index (the Reference Index).
<b>Objectives</b>	To provide investors with the potential for high quarterly income payments, medium term capital growth and a Capital Guarantee on the initial investment.
<b>Structure</b>	The offer is structured as a deferred purchase agreement. It is a contract between the investor and the Issuer whereby the Issuer agrees to deliver the Delivery Assets to investors on the maturity date thereby procuring the Capital Guarantee and the investment return to investors at maturity.
<b>Security</b>	YIELDS2 - Yield Income Enhanced Listed Deferred Securities 2
<b>Investment</b>	Units in YIELDS2
<b>Issue price</b>	\$10.00 per Unit
<b>Initial NAV</b>	\$9.64 per Unit (estimate only)
<b>Reference Index</b>	Dow Jones Global Titans 50 Index.
<b>Region</b>	Global, with the heaviest weightings being 36% UK and 37% US.
<b>Capital Guarantee</b>	Citigroup Global Markets Holdings Inc. (CGMH) will provide investors with a Capital Guarantee for all YIELDS2 held until the maturity date.
<b>Counterparty risk</b>	Investors will rank as unsecured creditors of CGMA and CGMH.
<b>Issuer</b>	Citigroup Global Markets Australia Pty Limited (CGMA).
<b>Distributor</b>	Capital Guaranteed Investments Limited (CGIL).
<b>Open &amp; Close Dates</b>	Opened 20 October 2004, Closes 30 November 2004.
<b>Issue Date</b>	6 December 2004
<b>Investment term</b>	Long term, running for 6 years to 6 December 2010.
<b>Amount being raised</b>	Minimum not stated, maximum not stated.
<b>Minimum application</b>	500 Units and then in multiples of 100 Units.
<b>Level of risk</b>	Low to Medium. Refer section "Risks" below and PDS pages 34 to 36.
<b>Potential returns</b>	Medium to High. Investment performance will be driven by the performance of the 30 Selected Stocks from the Reference Index, interest rates and the performance of the IPTS.

*The timing of an investor's entry into this investment relative to market cycles is critical*

*Because of the way the capital protection is managed (dynamic portfolio management or threshold management) the performance of YIELDS is improved if there are gains early in the life of the investment as opposed to early falls in the market and subsequent gains*

*It is therefore advantageous to enter YIELDS in a rising or flat market as opposed to a sharply falling market*

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<b>Gearing and derivatives</b>	The issuer may or may not enter into separate hedging arrangements to offset part or all of the risk associated with its obligations under YIELDS2.
<b>Liquidity</b>	The Issuer has applied for the official quotation of YIELDS to enable trading on the ASX.
<b>Redemptions</b>	YIELDS2 can be redeemed via sale on the ASX. However, the Capital Guarantee only applies to YIELDS2 held at the Maturity Date.
<b>Delivery Asset</b>	One or more of the shares that comprise the Reference Index or any other Delivery Asset as determined by the issuer
<b>Distributions</b>	YIELDS2 intend to pay a Deferral Payment Amount to investors quarterly in arrears. This payment is targeted at 12% pa (net of fees) based on a 100% allocation to the IPTS.
<b>Management fee (IPTS and Capital Guarantee Costs)</b>	The IPTS and Capital Guarantee Costs are based on the Issue Price multiplied by the number of YIELDS on issue and accrue daily. The maximum cost for investors is 2.50% pa if 100% of the Investment Amount is notionally allocated to the IPTS. The minimum cost for investors is 0.75% pa if 100% of the Investment Amount is notionally allocated to the Bond Portfolio.
<b>Performance fee</b>	No performance fees are paid.
<b>Strategy Sponsor</b>	Citigroup Global Markets Limited (CGML)
<b>Distribution fee</b>	Upfront fee of 3.5875% (inc GST) deducted from an investor's initial investment amount. Trailing fee of 1.2813% (inc GST) pa is deducted from the notional value of the Dynamic Portfolio.
<b>Adviser commissions</b>	Upfront fee of up to 2.75% (inc GST) and a trailing fee of up to 0.55% (inc GST) pa. These fees are payable by the Distributor out of the Distribution fee and do not affect the value of YIELDS2.

## Issuer and Distributor Profile

The Issuer is Citigroup Global Markets Australia Pty Limited (CGMA), a wholly owned subsidiary of Citigroup Global Markets Holding Inc., and a member of Citigroup Inc., a US based global financial services group. For the year ended 30 June 2004 Citigroup Inc. reported as follows:

<b>Citigroup Inc. Financial Highlights</b>	<b>US\$ billion</b>
Total assets	1,396
Revenue	83.4
Net income	15.9
Return on average Common Equity	5%

Capital Guaranteed Investments Limited (CGIL) has been appointed as the Principal Distributor of YIELDS2 in Australia. This is the third public offering from Sydney-based CGIL, which was formed in 1994 to provide financial services to private clients.

## Disclosure by the Issuer

The Issuer and its related bodies corporate, as part of its investment banking and stockbroking business, may from time to time advise or act for the issuer of the Delivery Asset, or advise or act for other clients in relation to the issuer of the Delivery Asset, or publish research reports on the issuer of the Delivery Asset. Investors will not be notified of these activities, or the content of such reports; and the Issuer or an associate or related body corporate may from time to time hold Delivery Assets for trading purposes, including market making, or to hedge YIELDS. Related bodies corporate of the Issuer may deal in Delivery Assets, options and other derivative contracts in respect of them.

## Opinion

Lonsec considers that the entities managing and distributing YIELDS2 are suitably qualified and experienced.

## Overview of YIELDS2

CGMA has previously issued six market-linked investments in the period 2002 to 2004. This offer is structured in a broadly similar way to the previous offers but in addition it employs a technique variously described as Active Management, Threshold Management or Dynamic Portfolio Management. Investors should also be aware that the Strategy Sponsor, CGML, has been using this technique for more than six years and currently manages over US\$4.0 billion in investor's funds under this technique. Another added feature is the use of covered call option writing to generate premium income to enhance the dividend income on the 30 stocks selected for the IPTS from the Dow Jones Global Titans 50 Index.

As evidence of the increasing use of Buy-Write strategies to enhance income, especially in a flat market, the ASX developed the S&P/ASX Buy Write Index (XBW) which incorporates the benefits of the option premium income generated when a covered call option is written.

YIELDS2 intend to pay a Deferral Payment Amount to investors quarterly in arrears. This distribution is targeted but it is not guaranteed. It will however be payable under most normal conditions based on the Selected Stocks continuing to pay comparable levels of dividends and the level of stock implied volatilities remaining stable or rising.

The product provides investors with exposure to the performance of the IPTS with the following features:

- Diversification by exposure to the performance of 30 large, globally orientated, dividend-paying companies.
- Income enhancement is achieved by writing quarterly covered call options over the stocks that comprise the IPTS.
- 100% Capital Guarantee if YIELDS2 are held until the maturity date.
- Upside potential in a rising market may be constrained by the use of the Buy-Write strategy.
- No performance fees are taken by the Issuer. The distribution fee (3.5875% upfront and 1.2813% pa trailing) and the management fee (0.75% to 2.5% pa) are comparable with the fees charged by other structured products with capital guarantees.
- At maturity the Delivery Assets will normally constitute the shares in companies that comprise the Reference Index. However, investors may elect to take advantage of the Agency Sale Arrangement which enables the investor to sell their Delivery Assets and receive the sale proceeds.
- YIELDS2 will make quarterly distributions during the term of the investment, unless there is a need to reinvest distributions. The distributions will not carry any imputation credits.
- Early redemption is possible by selling YIELDS2 on the ASX. However, if an early redemption is made the Capital Guarantee would not apply.
- Investors will be provided with quarterly performance reports detailing information regarding the performance and the specific securities that comprise the IPTS.

## Structure of YIELDS2

YIELDS2 will be listed as a warrant under Section 10 of the ASX Market Rules and are structured as a deferred purchase agreement. Under a deferred purchase agreement investors agree to purchase a number of Delivery Assets (the Delivery Parcel) on the maturity date. The purchase price of the Delivery Parcel is equal to \$10.00 per YIELDS2 Unit and is payable by investors on the Issue Date.

*This Buy-Write strategy will be over the S&P/ASX 200 Accumulation Index*

*The investment objective of YIELDS2 is to provide investors with a return of 12% pa (net of fees) based on a 100% allocation to IPTS*

*A Buy-Write strategy will be used to enhance income*

*Capital Guarantee only applies to Units held to maturity*

*The economic performance of YIELDS2 is linked to the performance of the Dynamic Portfolio*

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The value of the Delivery Parcel received by investors on the Maturity Date is variable and will be equal to the greater of \$10.00 per YIELDS2 Unit or the Dynamic Portfolio Value. The initial NAV of Units in YIELDS2 is expected to be \$9.64 per Unit.

*The Dynamic Portfolio is made up of a notional allocation to the IPTS and a Bond Portfolio*

## Income Plus Trading Strategy

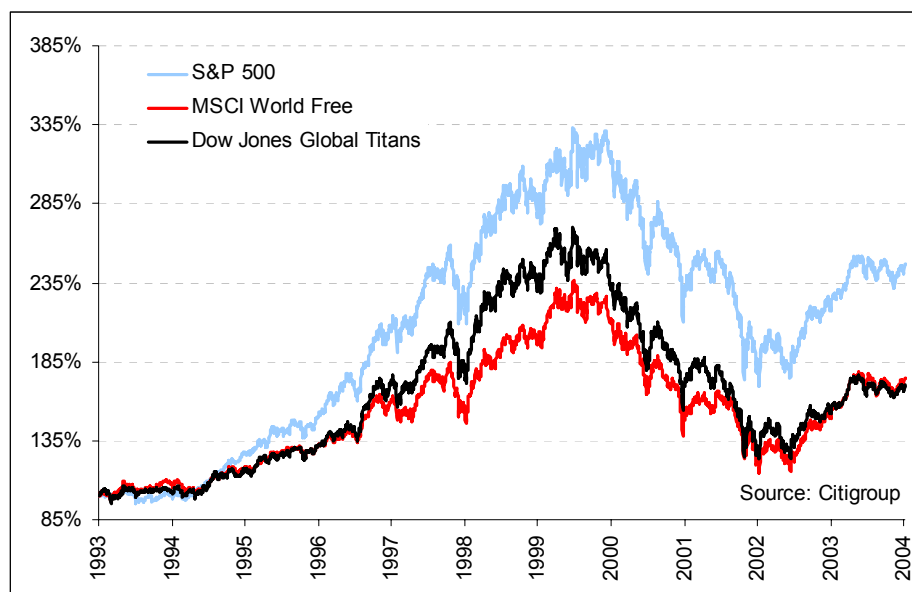
The Income Plus Trading Strategy (IPTS) is a proprietary trading model developed by CGML that seeks to generate a potentially high level of income and capital growth through investment exposure to 30 of the world's largest companies as measured by market capitalisation.

The two core objectives of the IPTS are to generate a target annual income of 12% pa (net of fees) and a proportion of equity growth. The IPTS uses a dual approach in order to meet these objectives:

1. Investing in high dividend yielding stocks in some of the world's largest companies (as measured by market capitalisation).
2. Generating additional income by writing covered call options over these stocks.

The stock selection universe for the IPTS includes all the stocks that comprise the Reference Index (Dow Jones Global Titans 50 Index, Bloomberg Code: DJGT, Reuters Code: DJGT). The DJGT is a capitalisation-weighted index of the 50 largest internationally based, globally orientated companies. The DJGT Index has a market capitalization of approximately US\$6,000 billion. By way of comparison, the ASX200 has a market capitalization of approximately US\$500 billion.

The performance of the DJGT Index over the 11-year period 1 October 1993 to 4 October 2004 is shown in the graph below. The MSCI World Index and the S&P 500 Index are also shown by way of comparison.



*The three indices are expressed as price indices and do not include the impact of dividend accumulation*

In this period the DJGT Index outperformed the MSCI World Index but underperformed the S&P 500 Index. Investors must be aware that past performance is not a reliable indicator of future performance.

The IPTS ranks the pool of 50 stocks comprised in the DJGT Index according to the 12-month historic dividend yield (excluding special dividends and stock dividends) expressed as a percentage of the stock price in descending order.

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Where two or more stocks have the same dividend yield, those stocks are ranked by free-float market capitalisation in descending order.

The IPTS selects the top 30 stocks from the list as ranked above, subject to the provisions described below. Each selected stock is classified within a particular industry sector by the Index. Subject to the following, the IPTS will only select 10 stocks from any single sector. Having selected 10 stocks from the same sector, the IPTS will seek to avoid further stocks from the same sector, and will instead select stocks with a lower dividend yield from the Index. However, IPTS will always select 30 stocks from the Reference Index, which may mean including more than 10 stocks from the same sector if the Reference Index does not contain an adequate sector spread. For regulatory reasons, the IPTS will never hold Citigroup Inc. stock.

The IPTS assigns weightings ranging from 2% to 10% to each stock selected, with the higher dividend yielding stocks being assigned higher weightings. The stock portfolio is rebalanced annually so that at each rebalancing point the current highest dividend yielding stocks are included within the IPTS and are weighted to take advantage of their higher yields. US and European financial corporations traditionally pay relatively high dividends and have high implied (rather than intrinsic) volatility, hence the very high weighting of this sector in the IPTS.

The following three tables show the stock composition within the IPTS, in terms of sector, currency and geographic distribution weightings as of July 2004.

<b>Industry Sector</b>	<b>%</b>
Financial	37%
Energy	17%
Healthcare	15%
Consumer - Non-Cyclical	9%
Telecom	12%
Technology	5%
Consumer - Cyclical	3%
Industrial	2%
<b>Total</b>	<b>100%</b>

<b>Currency</b>	<b>%</b>
GBP	36%
USD	38%
EUR	22%
CHF	4%
<b>Total</b>	<b>100%</b>

<b>Geographic</b>	<b>%</b>
United Kingdom	36%
United States	37%
Netherlands	8%
Germany	5%
Italy	5%
Switzerland	4%
France	2%
Finland	3%
<b>Total</b>	<b>100%</b>

*There are 12 financial corporations in the 50 stocks that comprise the Reference Index*

*There are 6 financial stocks included in the top 10 of the 30 stocks selected for inclusion in the IPFS:*

*Bank of America  
Barclays  
HBOS  
HSBC  
ING  
UBS*

*On a market capitalisation basis these financial stocks represent 10% of the Index*

If the Reference Index or its sector classifications cease to be published by Dow Jones & Co Inc., the Strategy Sponsor will substitute another large global index as

“This information must be read in conjunction with the disclaimer at the end of this document.”

the Index.

## Dynamic Portfolio

The Dynamic Portfolio is designed to replicate an asset allocation mechanism that re-allocates investment exposure between two notional assets, namely the IPTS and the Bond Portfolio. On the portfolio commencement date, it is expected that the Dynamic Portfolio will be 100% allocated to the IPTS with a zero allocation to the Bond Portfolio. The general principle of the dynamic allocation mechanism is that at any point in time during the investment period it is possible to calculate the value of the Bond Portfolio that would be required to grow to an amount equal to 100% of the Issue Price on the Maturity Date. At any point in time, the amount of bonds required to generate the Issue Price is known as the "Protection Floor".

During the investment period, the allocations within the Dynamic Portfolio will change based on the dynamic allocation mechanism. The dynamic allocation mechanism is designed to protect an investor's initial capital, whilst providing maximum exposure to the IPTS.

If on any given day the value of the IPTS is less than 4 times or greater than 6.67 times the difference (or gap) between the NAV of the Dynamic Portfolio and the Protection Floor, the allocations within the Dynamic Portfolio will change.

If the gap is greater than 6.67, the allocation to the IPTS will be increased and the allocation to the Bond Portfolio will be decreased to reset the gap to 5.

Alternatively, if the gap is less than 4, the allocation to the IPTS will be decreased and the allocation to the Bond Portfolio increased to reset the gap to 5. In order to effect these re-allocations, the Strategy Sponsor will notionally purchase or sell the stocks and/or bonds that comprise the IPTS and/or the Bond Portfolio.

The dynamic allocation mechanism therefore means that if the NAV of the Dynamic Portfolio is performing well relative to the Protection Floor (as indicated by the gap widening), then the allocation to the IPTS will be increased and the allocation to the Bond Portfolio decreased.

Alternatively, if the NAV of the Dynamic Portfolio is not performing well relative to the Protection Floor (as indicated by the gap narrowing) then the allocation to the Bond Portfolio will be increased and the allocation to the IPTS decreased.

In extreme falling equity markets the allocation to the Bond Portfolio may be 100%. If this occurs, the Dynamic Portfolio would remain 100% allocated to the Bond Portfolio until the Maturity Date and, provided no Early Maturity Events occur, investors will only receive their Investment Amount back on maturity.

## Leverage Facility

The dynamic allocation mechanism also allows for the allocation to the IPTS to exceed 100% of the NAV of the Dynamic Portfolio. This is achieved by the utilisation of a Leverage Facility to increase exposure to the IPTS and thereby enabling the allocation to the IPTS to exceed 100%. The maximum allocation allowed to the IPTS under the Leverage Facility is 150% of the NAV of the Dynamic Portfolio.

The maximum notional loan for each YIELDS2 Unit is \$7.50. Interest on the Leverage Facility will be charged at a rate determined by reference to the Reserve Bank of Australia official overnight cash rate plus 1.25% pa. At current interest rates the cost of the Leverage Facility is a low 6.5% pa.

*Allocations can change on a daily basis*

*A fall in market value of more than 20% in one day would be required to trigger a switch within the Dynamic Portfolio from 100% allocated to the IPTS to 100% allocated to the Bond Portfolio.*

*Gearing up to 150% at low interest rate of 6.5% (RBA official overnight cash rate (currently 5.25%) plus 1.25% pa).*

## Notional investments and transactions

A notional investment or transaction is a hypothetical investment or transaction which is designed to replicate an actual investment or transaction. The values of the Dynamic Portfolio, the IPTS and the Bond Portfolio, will be calculated based on notional investments during the term of YIELDS2. The Strategy Sponsor will not be required to engage in actual transactions in order to calculate such values. In addition, investors will have no rights, including voting rights or the right to receive dividends or option premiums, against any issuer of any stock underlying the IPTS.

## Call option writing

A call option gives the holder the right but not the obligation to buy a stock at a specific price (the strike price) at a future point in time. A covered call option is an option that is sold on a stock that is held by the seller.

If the call option is exercised the seller of the option is covered because they hold the stock (the liability on the call option is limited to delivery of the stock and the seller is not exposed to an increased cost base resulting from the increase in the stock price above the strike price). The IPTS will notionally sell 3-month (approximately) covered call options on each of the 30 stocks held. The IPTS will never notionally sell an uncovered call option.

Further enhancement of income is achieved within the IPTS by notionally writing covered call options on a quarterly basis over each of the stocks selected for inclusion in the IPTS. The IPTS model generates the strike prices for these options, with the minimum strike price in each quarter being 105% of the current stock price. By setting the strike price above the stock price, the IPTS maintains the potential for capital appreciation of up to 20% per year. Premium income generated on the call options is combined with the dividends notionally earned on the stocks to produce an enhanced yield. The call option writing is intended to help the IPTS to outperform a direct investment in the underlying portfolio of stocks in all but strong bull market scenarios.

The strike price of each call option will be subject to a minimum strike price of 105% of the current market price of the relevant stock to allow for capital appreciation and a maximum of 130% of the current market price of the relevant stock so as to reduce the risk of market illiquidity. The actual premium for each call option will be equal to the best bid price received from two independent market counterparties and CGML (or an affiliate of CGML) in respect of such call option. To the extent that the total call options to be notionally written by the Strategy Sponsor are in excess of the total number of call options that the counterparty with the best bid price is willing to purchase, the excess call options will be offered to the counterparty with the next best bid price and to the extent that there are any remaining excess call options, to the counterparty with the lowest bid price. The total call options will be reduced to the extent that the counterparties do not bid for all of the excess call options.

The option premium will be converted into USD, as soon as reasonably practicable after it is received, at the then current exchange rate determined by the Strategy Sponsor. If the Strategy Sponsor determines that the options market in respect of a particular selected stock is illiquid, the IPTS will not write an option for that stock.

## Exposure to the Performance of the Reference Index

The funds raised under the PDS are not directly invested in the stocks which

*Because there is a deep market for options, the high implied volatility of the financial sector stocks in the Reference Index makes them suitable targets for covered call option writing*

*The strike price has so far been around 107% to 108%*

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comprise the Reference Index, nor are they invested in the Delivery Assets.

Instead, CGMA will hedge its undertaking to investors that it will deliver the number of Delivery Assets determined by the performance of the Dynamic Portfolio.

In the normal course of managing its business risk CGMA uses sophisticated risk management systems and employs various forms of risk management techniques that include transactions in Swaps, Futures and Options (both Exchange Traded and Over the Counter). CGMA intends to make use of these risk management tools to:

- Generate a return to investors which replicates the performance of the Dynamic Portfolio.
- Generate a return to CGMA in the form of a management fee for arranging and managing the YIELDS2 investment.

The three main factors that will affect the value of Units in YIELDS2 are the market volatilities and share price performance of the 30 Selected Stocks selected from the Reference Index and prevailing interest rates. The following table illustrates:

Scenario	Probable outcome
Rising share prices	The value of YIELDS2 will increase, as long as the allocation to the IPTS is not zero
Falling share prices	The value of YIELDS2 will decrease, as long as the allocation to the IPTS is not zero
Rising interest rates	The value of YIELDS2 will decrease, but to a lesser extent if the Dynamic Portfolio is fully allocated to the IPTS
Falling interest rates	The value of YIELDS2 will increase, but to a lesser extent if the Dynamic Portfolio is fully allocated to the IPTS
Fluctuating share prices	Impact will depend upon the size and the timing of the fluctuations

## Distributions

In consideration for the investor agreeing to the deferred delivery of the Delivery Asset, the Issuer may pay a Deferral Payment Amount (DPA) to investors quarterly in arrears. The DPA is a variable payment based largely on the performance of the IPTS. The amount of the DPA is initially expected to be approximately 12% pa (after fees) based on 100% exposure to the IPTS, but may vary from quarter to quarter and may be zero. In certain circumstances (for example, when the allocation to the Equity Portfolio is less than 20%) the DPA may need to be re-invested to maintain an allocation to the IPTS.

The DPA is essentially stock dividends paid by the stocks comprising the IPTS plus call option premiums. Exchange rate exposure may affect the AUD value of any DPAs. This is because returns on the stocks that comprise the IPTS are denominated in a variety of currencies, the IPTS is denominated in USD, and YIELDS2 are denominated in AUD.

## Performance

CGMA raised \$130m in the previous YIELDS issue in July 2004. YIELDS2 will have the same terms and conditions as the earlier YIELDS issue. The actual performance of the YIELDS strategy for the year to July 2004 was 9.39% in total comprising 10.34% from the IPTS and -0.96% capital return on the underlying portfolio. By way of comparison, the MSCI World ex Aust Index with Dividends reinvested returned 9.4% over the same period, albeit the MSCI index does not reflect the income focus of YIELDS2.

*Quarterly distributions comprise company dividends received plus premium income generated from covered call option writing*

*The Issuer has discretion to discontinue payment of distributions if the NAV of the Dynamic Portfolio is not performing well relative to the Protection Floor.*

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## Capital Guarantee

Each Unit in YIELDS2 is guaranteed to be worth at least \$10.00 at maturity, irrespective of when or how the investment was purchased. Investments that are withdrawn prior to maturity are fully exposed to fluctuations in the value of the units in YIELDS2, interest rate movements and the remaining time to maturity.

The Capital Guarantee is provided by Citigroup Global Markets Holdings Inc. (Citigroup), of which CGMA is a member. Citigroup is a large global retail and investment bank, operating in over 100 countries. It is rated AA- by Standard and Poor's, Aa1 by Moody's and AA+ by Fitch.

The Capital Guarantee offered depends entirely upon Citigroup's creditworthiness. An investor in YIELDS2 will not be a secured creditor of the issuer.

Indicators of creditworthiness include balance sheet strength, market capitalisation and credit ratings from external rating agencies. Lonsec believes that Citigroup performs well against all of these measures.

The Capital Guarantee is contingent upon the conditions set out on pages 9 and 38 of the PDS. The conditions under which the Capital Guarantee will not apply to investors include:

- An investor not remaining in YIELDS2 until the maturity date.
- An Early Maturity Event occurring.

## Risks

YIELDS2 is exposed to a number of standard investment risks associated with investment markets. These include economic and political risks, risks associated with domestic and international markets, legal, tax and regulatory risks. In addition to the generalised risks, some specific risks include:

**Performance of the Reference Index:** The value of the Reference Index will vary over time.

**Performance of YIELDS2:** The return from investing in YIELDS2 may be different from the return obtained from investing directly in the specific equities that are components of the Reference Index.

**Early termination:** If YIELDS2 terminates before maturity the Capital Guarantee will not apply.

**Market and economic factors:** Prevailing and anticipated economic conditions, technological, legal or political conditions and other inter-related factors may affect the performance of markets generally and the stock market specifically.

**Interest rates:** If Australian long-term interest rates increase, the value of Units during the investment term can be expected to fall. The converse also applies.

**Capital Guarantee:** The Capital Guarantee is an unsecured obligation of the Issuer. The solvency of the Issuer is not assured. In the event that the Issuer becomes insolvent, the Capital Guarantee may no longer be enforceable.

**Conflict of interest:** The Issuer and other Citigroup companies may conduct transactions as principal and as agent in various securities, including the Delivery Assets and the stocks that comprise the Reference Index. These trading activities may affect (positively or negatively) the price at which the Delivery Assets trade or the level of the Index at any point in time.

*Investors must be comfortable with the creditworthiness of Citigroup*

*One of the greatest risks is that the Units will not appreciate in value, or will appreciate in value at a rate that is lower than the investor's expectations.*

*The sensitivity to interest rate movements decreases as maturity approaches*

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**Variation of Terms:** Certain events may occur that would cause the terms described in the PDS to change. For example, closure of the Reference Index would result in that Reference Index is substituted by another.

**Counterparty risk:** Investors will be transacting with CGMA and Citigroup in respect to the Capital Guarantee and the procurement of the investment return. Investors will rank as unsecured creditors of CGMA and Citigroup in connection with these matters.

**Changes in the law:** Changes in financial services legislation and in tax law could affect the value of Units in YIELDS2.

**Early Maturity Event risk:** In certain circumstances YIELDS2 may be terminated early where an Early Maturity Event occurs. Investors will be given 30 days notice of any proposed Early Maturity unless it is otherwise impracticable to do so. The Guarantor only guarantees to provide capital protection for investments held for the full term of YIELDS2. Prior to the Maturity Date investors will receive the Termination Amount. This amount may be less than an investor's initial Investment Amount. In determining the Termination Amount the Issuer may deduct break costs or taxes associated with an Early Maturity Event.

**Exchange Rate risk:** Exchange rate exposure may affect the value of YIELDS2 and the AUD value of any Deferral Payment Amounts. This is because the returns on the stocks that comprise the IPTS are denominated in a variety of currencies (GBP, USD, EUR, CHF), the IPTS is denominated in USD, and YIELDS2 are denominated in AUD. Foreign currency exposures are not hedged and this may lead to volatility in the NAV of YIELDS2.

These and other risks are outlined in the Product Disclosure Statement (PDS) on pages 34 to 36 and should be read in full and understood by potential investors before investing in YIELDS2.

## Fees

The Issuer charges Distribution Fees as follows:

- An upfront fee of 3.5875% (inc GST) deducted from an investor's initial investment amount.
- A trailing fee of 1.2813% (inc GST) pa is deducted from the notional value of the Dynamic Portfolio.

Fees to distributors, brokers and financial advisers will be paid by the Issuer at no additional cost to investors.

The Issuer charges a Management Fee based on the Issue Price multiplied by the number of YIELDS2 on issue and accrues daily. The maximum fee is 2.5% pa if 100% of the Investment Amount is notionally allocated to the Equity Portfolio. The minimum fee is 0.75% pa if 100% of the Investment Amount is notionally allocated to the Bond Portfolio.

## Disposal of Units during the term of the investment

Investors who wish to dispose of all or part of their investment in YIELDS2 prior to the Maturity Date can sell their Units on the ASX. The Issuer will make a market for YIELDS2 by providing both a bid and offer with a spread to the NAV. The proceeds received from such a sale may be less than the initial investment amount.

## Maturity Date and Delivery Asset

At the Maturity Date the Issuer will deliver to investors one or more of the stocks that comprise the Reference Index. If the Issuer cannot readily obtain one or more of these stocks, the Issuer may substitute other stocks, as determined by the Issuer

*Fees are comparable with the fees charged by other structured products with capital guarantees*

*Issuer will make a market for YIELDS2*

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in its sole and absolute discretion. The Issuer will only deliver a whole number of Delivery Assets. If any fractional stock would be transferable by the Issuer to the investor, the Issuer will pay an amount equal to the value of the fraction of the stock foregone, based on the closing price, provided that the amount exceeds \$20.00. If the amount does not exceed \$20.00, the Issuer is under no obligation to the investor to make any payment for the fraction. The Issuer will only deliver the Delivery Assets to the investor if the investor notifies the Issuer of the details of its Settlement Account before the Maturity Date. If the investor does not notify the Issuer before the Maturity Date, the Issuer will substitute the Delivery Assets in its sole and absolute discretion with shares listed on the ASX.

Investors will have two options as to how to receive the Final Value per Unit, with Final Value being the greater of the Capital Protection Value (\$10.00 per YIELDS2 Unit) or the Dynamic Portfolio value:

1. Do nothing and receive the Delivery Assets; or
2. Elect to take advantage of an Agency Sale Arrangement and have the Delivery Assets sold and receive instead a cash amount equal to the Final Value less any costs and taxes.

If an investor elects to sell their Delivery Assets, the Issuer will purchase the Delivery Assets from the investor at the closing price, thus realizing the Sale Proceeds. The Sale Proceeds will be paid to investors within 10 business days of the settlement. Investors should refer to pages 31 to 32 of the PDS for further information on the Delivery Asset, its price and the Agency Sale Arrangement.

The existence of the Delivery Asset allows investors to dispose of the Delivery Asset at a future date. This allows investors to determine the timing of their disposal and the incidence of Capital Gains Tax (CGT). All capital gains (unit price appreciation) on YIELDS2 are expected to be treated as Capital Gains for tax purposes.

## Overall Opinion

YIELDS2 offers access to the enhanced performance of stocks selected from a highly liquid major global equity market index (the Dow Jones Global Titans Index, DJGT), with a Capital Guarantee, thus providing diversification benefits within a risk controlled framework. The Guarantor (Citigroup) has a very strong credit profile. In certain circumstances gearing of up to 150% at the low interest rate of 6.5% pa will be employed to further enhance returns to investors.

The Issuer (CGMA) and the Strategy Sponsor (CGML) have extensive experience in structuring and managing this style of product. The call option writing (Buy Write strategy) is intended to help the Income Plus Trading Strategy outperform a direct investment in the underlying portfolio of stocks in all but a strong bull market scenario. CGML will only write 3-month cash settled European call options that are 'out-of-the-money' (i.e. where the price of the stock is below the exercise price of the option), with an exercise price between 105% and 130%.

The IPTS has a heavy weighting (37%) of financial sector stocks. The deep market for options, resulting from the size of the underlying stocks and the large number of option writers and buyers, both wholesale and retail, all pursuing differing strategies, results in the high implied (rather than the intrinsic) volatility of the financial sector stocks in the Reference Index. This makes them suitable targets for covered call option writing, which aims to generate an income of 8% pa. In addition, US and European financial stocks typically pay relatively high dividend yields of around 4% pa.

The upfront distribution fee of approximately 3.6% (inc GST) is relatively high.

*Investors have the opportunity to participate in medium term capital growth via YIELDS2 unit price appreciation*

*Gearing interest rate is the RBA official overnight cash rate (currently 5.25%) plus 1.25% pa*

*Targeted distribution is 12% pa (after fees) based on a 100% allocation to the Income Plus Trading Strategy within the Dynamic Portfolio*

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This is expected to reduce the initial NAV of Units in YIELDS2 to around \$9.64 per Unit. In addition there is a trailing fee of approximately 1.3% (inc GST) pa which is deducted from the notional value of the Dynamic Portfolio.

The Income Plus Trading Strategy is sufficiently robust such that a fall in the value of the stocks that comprise the IPTS of more than 20% in one day would be required to trigger a switch from 100% Dynamic Portfolio to 100% Bond Portfolio.

Lonsec believes that YIELDS2 can play an effective role as part of a client's overall portfolio. The product is designed to complement existing equity holdings and provide diversification based on the YIELDS2 global equity market index approach.

Investors have the opportunity to participate in medium term capital growth via YIELDS2 unit price appreciation. In addition, YIELDS2 is targeting the payment of a quarterly distribution to investors equivalent to 12% pa (after fees) based on a 100% allocation to the IPTS within the Dynamic Portfolio. However, YIELDS2 must not be looked upon as solely an income product because there are possible circumstances in which the quarterly distributions could fall to zero and remain at that level for an extended period.

*YIELDS2 must not be seen as solely an income product*

YIELDS2 is suitable for long-term investors (6 year term, with conditional liquidity via the ASX listing in that the Capital Guarantee only applies at maturity) and has been rated 'Investment Grade' by Lonsec.

Lin Ngini (03) 9623 6323, email: [Lin.Ngini@lonsec.com.au](mailto:Lin.Ngini@lonsec.com.au)

Before making an investment in YIELDS2 investors should read the PDS document which is available from the following parties:

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## **Principal Distributor:**

**Capital Guaranteed Investments Limited ("CGIL")**

Adviser Hotline: 1800 667 671

Postal: GPO Box 4569, Sydney 2001

General Enquires: +612 9236 5777; Facsimile: +612 9236 5799

The PDS is available at [www.cgil.com.au](http://www.cgil.com.au) or by emailing [enquiry@cgil.com.au](mailto:enquiry@cgil.com.au)

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## **Product Issuer:**

**Citigroup Global Markets Australia Pty Limited.**

Telephone: +612 8225 6564, Facsimile: +612 8225 5462

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The PDS is available at [www.citiwarrants.com.au](http://www.citiwarrants.com.au) or by emailing [warrants@citigroup.com.au](mailto:warrants@citigroup.com.au)

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## **Past performance is not a reliable indicator of future performance**

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