

# Optimiser II

Recommended

Important Dates	
Open Date	24 October 2005
Close Date	30 November 2005
Issue Date	8 December 2005
Maturity Date	8 December 2008
Investment Term	3 years

Key Information	
Product Type	A 'unitised contract' providing investors with exposure to the performance of an underlying reference portfolio
Issuer	Citigroup Global Markets Australia Pty Ltd
Underlying strategy	Optimiser II is linked to the performance of three reference portfolios comprising global equities, commodities and bonds. Optimiser II seeks to return the performance of only the best performing of the three reference portfolios
Objectives	To provide investors with the potential for capital growth through a diversified exposure to global markets.
Structure	The offer is structured as a deferred purchase agreement.
Reference Assets	EURO STOXX 50, Hang Seng, Nikkei 225, S&P 500, Citigroup World Government Bond Index, AUD exchange rate, Aluminium, Copper, Crude Oil and Natural Gas.
Participation Rate	Expected to range between 70% and 100%, the minimum Participation Rate will be 70%.
Capital Protection	Citigroup will provide investors with Capital Protection on Units held to maturity.
Counterparty Risk	Investors will rank as unsecured creditors of CGMA.
Size of Fund	At least A\$10,000,000
Issue Price	A\$1.00
Minimum Application	A\$5,000 and thereafter in multiples of A\$1,000
Liquidity	The Optimiser is unlisted and cannot be traded on any financial market. However, it is transferable with prior consent of the Issuer.
Redemptions	Investors wanting to dispose of their investment in the Optimiser prior to maturity can request the Issuer invoke the Early Maturity mechanism. Break costs may be charged.
Delivery Asset	Units in the StreetTRACKS S&P/ASX 200 Fund
Distributions	Annual coupon of 1.0% p.a. payable annually in arrears.
Management Fee	There are no entry, exit, management or brokerage fees payable on investments held until the Maturity Date.
Distribution Fee	Citigroup will pay distributors an upfront placement fee of up to 2.0% and a trailing fee of up to 0.33% p.a. Citigroup may also pay advisers an additional volume based upfront fee of up to 0.50% of the Investment Amount. Citigroup pays these fees at no additional cost to the investor.

## What this rating means

▪ The Recommended rating indicates the product is considered to be a worthy substitute for Highly Recommended products, given the product is still considered to be well positioned overall to deliver outperformance in the long term. A Highly Recommended rating has not been assigned due to one or more factors that are likely to impact the product's overall performance

## Lonsec Opinion

▪ Citigroup Optimiser II offers investors a structured market linked product which combines capital protection upon maturity, a minimum annual coupon of 1% pa, and exposure to global equities, bonds, and commodities with a unique payoff structure.

▪ The return offered to investors by Citigroup is based upon the best performing of three reference portfolios, comprising an equity biased, a commodity biased, and a balanced portfolio. As investors will receive the highest return of the three reference portfolios, there is no requirement for investors to make an asset allocation decision between the three portfolios. Citigroup will hedge their obligations to investors internally using derivative instruments including exotic options such as 'best of' options.

▪ Whilst the cost of the option structure is not explicitly stated nor charged to investors, investors should note that the cost of delivering the return in Optimiser II is reflected by the Participation Rate of between 70% and 100% (the more costly the structure, the lower the Participation Rate). Had Optimiser II been issued on 27 October 2005, the Participation Rate would have been fixed at 90% for the term of the investment.

▪ The underlying reference portfolios, whilst transparent and fixed from the outset, are relatively simplistic in construction. Citigroup has not designed the portfolios to specifically reflect the general global performance of equity and commodities markets as measured by widely recognised global benchmarks. For example, the equity class is equally weighted between the major US, European, Hong Kong and Japanese indices. Investors should note that this may lead to a return and volatility exposure that differs from the MSCI World index, a widely accepted global equity benchmark.

▪ Optimiser II has a term of only three years. Lonsec believes that this shorter maturity is an advantage compared to other structured products that allocate between a notional risk free asset (to provide the capital protection) and a risky asset (to generate returns). Lonsec believes such structures have limited upside when the underlying portfolios suffer losses early in the life of the product. Whilst investors will recover their starting capital provided they hold the product to maturity, Lonsec believes this recovery time is expensive as it implies an opportunity cost of at least the relevant risk free return. Alternatively, investors may forgo the capital protection and sell prior to maturity which may crystallise a capital loss.

▪ Overall, Lonsec considers Optimiser II a suitable product for investors with a defensive outlook seeking to maintain an exposure to potential growth from global markets in their portfolio with limited downside derived from capital protection. In addition, Optimiser II offers investors diversification benefits through its unique payoff structure that delivers the return of the best performing of the three reference portfolios.

### Issuer and Distributor Profile

The issuer is Citigroup Global Markets Australia Pty Ltd ("Citigroup Australia"). Citigroup Australia is a wholly owned subsidiary of Citigroup Inc. Citigroup Inc. is a diversified global financial services holding company whose businesses provide a broad range of financial services with more than 120 million customers in more than 100 countries. As at 31 December 2004, Citigroup Inc. employed approximately 287,000 people. The Citigroup Inc. has a long term credit rating of AA- (Standard & Poor's) as at the date of this offer. Optimiser II represents Citigroup's eighth offering of a market-linked investment in the Australian market.

### Overview of Optimiser II

The Citigroup Optimiser II offers investors a three-year AUD denominated market linked investment which is linked to the performance of three multi-asset "Investment Profiles". The Optimiser features the potential for capital growth linked to the Best Performing Investment Profile, 100% Capital Protection on the Maturity Date and an annual coupon of 1.0% per annum. The three Investment Profiles offer investors a diversified exposure to global markets, each of which has a specified allocation to equities, bonds/currencies and commodities:

Investment Profile	Equities Allocation	Bonds/Currencies Allocation	Commodities Allocation
Equities-biased	60%	20%	20%
Balanced	1/3	1/3	1/3
Commodities-biased	20%	20%	60%

The performance of each asset class will be based on an equally weighted basket of Reference Assets:

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

On the Maturity Date, investors will receive 100% of their initial investment (Capital Protection) plus participation in the performance of the Best Performing Investment Profile. An investor's participation is determined by the Participation Rate (PR), explained further in the 'Investment Strategy' section. The Best Performing Investment Profile is simply the Investment Profile with the highest calculated return over the three year period. Please refer to Section 1 of the PDS for further information.

### Structure of Optimiser II

The Optimiser is structured as a deferred purchase agreement. Under a deferred purchase agreement, investors agree to either accept the physical delivery of the Delivery Assets on the Maturity Date; or take advantage of the Agency Sale

Arrangement and receive the Sale Proceeds.

In consideration for agreeing to the deferred purchase agreement, investors will receive annual coupon payments of 1% per annum.

### Investment Strategy

Optimiser II provides investors with exposure to an investment linked to the performance of three multi-asset reference portfolios ("Investment Profiles"). The major differentiator in the Optimiser II vis-à-vis other structured products currently offered in the market is the 'best of three' return profile offered by Citigroup.

Investors will receive a stream of annual coupons fixed at 1.0% pa. On the maturity of Optimiser II, investors will participate in the performance of only one of the three reference portfolios, subject to a Participation Rate determined at the issue date. A feature of this investment structure is that investors do not need to select up front which one of the three portfolios they wish to participate in.

Optimiser II has the characteristic of an exotic option known as a 'best of' option, which delivers the option buyer a payoff determined by the best performing of the three portfolios over the three year term as assessed on the maturity of Optimiser II. Citigroup will deliver the return of the best performing of the three reference portfolios, subject to the Participation Rate. Citigroup will internally hedge its obligations to investors using derivative and hedging techniques.

'Best of' options are a path dependent option which means that their value is determined by how the underlying assets have behaved over the term of the option. In contrast, the value of a vanilla call option is determined by the value of the underlying asset at a single point in time.

In the Optimiser II investment, the use of the 'best of' payoff by Citigroup alleviates investors from having to make an asset allocation decision. The three portfolios, whilst comprising the same basket of assets, differ in their allocation and weighting to the asset classes resulting in portfolios which are 'equity biased', 'commodities biased' or a balance between the two (components and weights are discussed in the 'Overview of Optimiser II'). This allows investors to benefit from both the potential growth in the equities and commodities markets in the next three years without having to make a decision on which asset class to overweight to. In addition, Optimiser II is capital protected if held to maturity, thus providing downside protection to investors should global markets in equities and commodities decline over the next three years.

The use of the 'best of' payoff is a positive feature to investors. Whilst investors do not explicitly pay for an option, the cost of the strategy will influence the level of participation that investors may share in the performance of the underlying assets. The level of participation is determined by the Participation Rate (discussed below) and may range between 70% and 100%. The Participation Rate, once determined, will be fixed for the term of Optimiser II.

The underlying reference assets and the asset allocation of the three portfolios have been fixed for the term of Optimiser II. Lonsec notes that the allocation within the asset classes is very arbitrary and not reflective of any global indices. For example, the equities asset class is comprised of 4 equally weighted exposures to the various major regional indices (US, Europe, Japan, and Hong Kong as a proxy for Asia). As a result of the equal weighting, the performance of the aggregate of these four indices may not reflect the performance of the MSCI World index, widely accepted as the benchmark for the global equities market. Investors should be aware that the large allocation to the Hang Seng Index (compared to the weighting of Hong Kong listed shares in the MSCI World Index) is likely to increase the volatility of the equities asset class than would be normally observed in the MSCI World Index. Likewise, the commodities asset class is comprised of energy and materials exposure rather than a cross section of commodities. That said, the bond asset class is comprised of exposures to the Australian dollar and the Citigroup World Government Bond Index which should be reasonably reflective of the global fixed interest markets. Lonsec believes the Lehman Global Aggregate index would be a superior index as it has a higher exposure to credit and is more representative of the current composition of global bond markets.

Citigroup will meet its obligations in Optimiser II by allocating to a notional bond (the 'risk free' asset) with an annual coupon of 1% and a term of three years. The bond on maturity will provide the capital protection (refer to 'Capital Protection' section) with the annual coupon used to return the annual fixed coupon to investors. The remaining investment is allocated to the 'risky asset' exposure which generates the ultimate return.

Citigroup has significant experience in packaging and managing derivative based investments. Citigroup may undertake activities to hedge or otherwise manage its obligation to investors.

### Participation Rate

The Participation Rate (PR) represents the degree to which investors participate in the performance of the Best Performing Investment Profile. The return on the Optimiser that an investor receives at Maturity is calculated as the return of the Best Performing Investment Profile multiplied by the PR. The level of the PR is dependent on a range of market variables including:

- Australian Dollar interest rates – according to Citigroup an increase in the risk free rate by 10 basis points will increase the PR by approximately 3% at the time of this report.
- Volatility of the Reference Assets – according to Citigroup an increase in volatility by a magnitude of 10 basis points will increase the PR by approximately 1.3% at the time of this report.
- Correlations between the Asset Classes and each of the Reference Assets – according to Citigroup an increase in all correlations by 5% will decrease the PR by approximately 3% at the time of this report.
- Forward price of Commodities relative to the spot price –

according to Citigroup an increase in the forward price (relative to the spot price) will decrease the PR.

The PR will be determined by the Issuer on the Issue Date and it is expected to range between 70% and 100%. Lonsec notes that if the Issuer is unable to achieve an actual PR of at least 70% on the Issue Date, Optimiser II will not proceed and investors will receive their money back (without interest). Had the Issue Date been 27 October 2005 the PR would have been 90%. The actual Issue Date will be 8 December 2005.

### Reference Assets

The multi-asset Investment Profiles provide exposure to three asset classes, representing equities, bonds/currencies and commodities. The following provides a brief overview of each of the respective Reference Assets in each of the asset classes.

#### Equities

- Dow Jones EURO STOXX 50

The Dow Jones Stoxx and Dow Jones Euro Stoxx are capitalisation weighted indexes designed to represent the largest and most liquid stocks in the market. The index aims at presenting 80% of each industry group in each market, and consequently 80% of the investable securities of each market. The Dow Jones Stoxx 50 is a subgroup of 50 companies of the Dow Jones Euro Stoxx index. For more information see: <http://www.djindexes.com>

- Hang Seng Index

The Hang Seng index is a capitalisation-weighted index of 33 companies that represent approximately 70% of the total market capitalisation of the Stock Exchange of Hong Kong. For more information see: <http://www.hsi.com.hk>

- Nikkei 225 Index

The Nikkei 225 Index is a price-weighted index of 225 top-rated Japanese companies, selected on the basis of high liquidity and market capitalisation, and intended to be representative of the development of the Japanese equity market as a whole. For more information see:

[http://www.nni.nikkei.co.jp/FR/SERV/nikkei\\_indexes](http://www.nni.nikkei.co.jp/FR/SERV/nikkei_indexes)

- S&P 500 Index

The S&P 500 is a stock index designed to measure the price performance of a diverse portfolio of securities, the majority of which are quoted on the NYSE. The 500 listed securities are chosen on the basis of market size, liquidity, capitalisation and industry group representation. The S&P 500 is one of the most widely used benchmarks of US equity performance.

For more information see: <http://www.standardandpoors.com>

#### Bonds/Currencies

- Citigroup World Government Bond Index

The Citigroup World Government Bond Index (WGBI) includes 22 government bond markets in which eligibility is determined by market capitalisation and investability criteria. A minimum

credit quality requirement of BBB-rating by S&P and Baa3 by Moody's for all issuers to ensure that the WGBI remains an investment-grade benchmark. The WGBI is quoted under Bloomberg code "SBWGU Index".

- Australian Dollar Exchange Rate

The Australian Dollar, AUD or \$A, is the official currency of the Commonwealth of Australia. It is currently the sixth most-traded currency in world foreign exchange markets accounting for approximately 4%-5% of worldwide foreign exchange transactions.

For an indication of the Australian Dollar Exchange Rate please refer to: [http://www.rba.gov.au/Statistics/exchange\\_rates.html](http://www.rba.gov.au/Statistics/exchange_rates.html)

### Commodities

- Aluminium

Aluminium is the most heavily produced and consumed non-ferrous metal in the world. The total turnover for the London Metal Exchange (LME) primary aluminium futures and options in 2001 was over 25 million lots (625 million tonnes). The LME has the most liquid aluminium contracts in the world.

For more information see: <http://www.lme.co.uk>

- Copper

Copper is the world's third most widely used metal, primarily used in highly cyclical industries such as construction and industrial machinery manufacturing. LME futures, traded options and traded average price options (TAPO's) contracts provide a combination of physical contract and risk management mechanisms. Approximately 94% of all copper futures trading is carried out on the LME.

For more information see <http://www.lme.co.uk>

- Natural Gas

Natural gas accounts for almost 25% of US energy consumption, and the NYMEX Division natural gas futures contract is widely used as a national benchmark price. Option contracts and calendar spread options contracts provide risk management opportunities and the spread between natural gas futures and electricity futures can be used to manage price risk in the power markets.

For more information see: <http://www.nymex.com>

- Crude Oil

Crude oil is the world's most actively traded commodity, and the NYMEX Division light, sweet crude oil futures contract is the world's most liquid forum for crude oil trading, as well as the world's largest-volume futures contract trading on a physical commodity. Due to its excellent liquidity and price transparency, the contract is used as a principal international pricing benchmark.

For more information see <http://www.nymex.com>

## Distributions

The Optimiser will pay a Coupon of 1.0% per annum based on the Issue Price, payable annually in arrears. Investors are not entitled to receive any dividends or distributions during the term of the investment.

## Capital Protection

Each unit in the Optimiser is guaranteed to be worth at least \$1.00 on the Maturity Date (8 December 2008).

The Capital Protection is provided by Citigroup Australia, a member of Citigroup. Citigroup Inc. 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 Protection offered depends entirely upon Citigroup Australia's creditworthiness. An investor in the Optimiser will not be a secured creditor of the issuer. Indicators of creditworthiness include balance sheet strength, market capitalisation and credit ratings from external ratings agencies. Lonsec believes that Citigroup performs well against all of these measures.

- Capital Protection Structure

The Capital Protection is implemented by a notional zero coupon bond and is hedged by Citigroup by entering into an interest rate swap. The swap is operationally akin to the purchase of a zero coupon bond (ZCB), but more efficient for investors due to lower bid/offer spreads than would be typically incurred in purchasing a 3<sup>rd</sup> party ZCB for a specified maturity.

Capital Protection is contingent upon conditions set out in Section 9 of the PDS. The conditions under which capital protection will not apply to investors include:

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

## Risks

This investment is exposed to a range of standard investment risks associated with investment markets. These include economic and political risks, early maturity risk, event risk, liquidity risk, counterparty risk, risks associated with domestic and international markets, legal, tax and regulatory risks. However, Lonsec notes that there will be no currency risks associated with an investment in the Optimiser as the performance of the Reference Assets will be measured in absolute terms with respect to their initial level on the Issue Date (24 October 2005). That said, in the calculation of the Best Performing Investment Profile, the asset class return of the bonds/currencies Investment Profile will be derived with respect to the change in the AUD/USD exchange rate. **Prospective investors should read Section 5 of the PDS for a specific outline of all risks before investing.**

## Optimiser II

### Fees

Investors should be aware that while there are no explicit upfront or ongoing fees, the cost of delivering the return profile to investors can be observed by the level of the Participation Rate (refer 'Investment Strategy').

There will be no commission, establishment fee or ongoing management fee payable to the Issuer in respect of Optimiser II. The Issuer may pay distributors, brokers and financial advisers a placement fee and/or an annual fee (including GST) in connection with the sale and distribution of the Optimiser. These fees will be paid by the Issuer at no additional cost to investors. As at the date of the PDS, the Issuer will pay the following Distributor Fees:

- An upfront fee of up to 2.00% (including GST) of the investment amount; and
- A trailing fee of up to 0.33% per annum (including GST) based on the investment amount, payable annually in arrears, conditional upon the investor still continuing to hold the Optimiser. In addition, the Issuer may also pay advisers, out of its own funds, an additional volume based upfront fee of 0.50% of the investment amount.

The Issuer reserves the right to pass on to investors any unforeseen costs and taxes (including GST). Investors will be informed of any such costs and taxes in the Maturity Notice. As at the date of the PDS, the Issuer is not aware of any costs and taxes payable.

### Other

#### Disposal of Units

The Optimiser is unlisted and cannot be traded on any financial market. However, Lonsec notes that the Optimiser is transferable contingent upon the consent of the Issuer.

Investors may terminate their investment in the Optimiser prior to maturity by requesting in writing for an Early Maturity for their investment amount. Pleasingly, Citigroup provides an indicative unit price for the Optimiser which is located at <http://www.citiwarrants.com.au>. That said, the Issuer reserves the right to accept or reject the investor's request.

Important to note is that the Issuer only provides Capital Protection if the investor holds the investment until maturity. If

an investor requests Early Maturity, the amount they receive may be less than their initial investment amount.

#### Delivery Assets

At Maturity, the Issuer will deliver the Final Value to the investor in the form of units in the StreetTRACKS Fund ("the Delivery Assets") on the Settlement Date, unless the investor elects to take advantage of the Agency Sale Arrangement.

The StreetTRACKS S&P/ASX200 Fund is an exchange traded Fund sponsored by State Street Global Advisors. The fund is listed on the Australian Stock Exchange (code STW) and each unit has a value of approximately one hundredth of the level of the S&P/ASX200 index. The fund's investment mandate is to track as closely as possible the S&P/ASX200 index. The fund pays distributions semi-annually and charges management fees of 0.286% per annum of the net asset value of the fund. As at 5 October 2005, the size of the fund was A\$404.8 million.

Investors should note that the performance of Optimiser and the Final Value are not affected by the performance of the StreetTRACKS S&P/ASX200 Fund over the investment period.

Lonsec notes that investors can obtain further information on the StreetTRACKS Fund at <http://www.streettracks.com.au>

### Contact Information

For further information or to obtain a PDS contact Citigroup on 1300 30 70 70 or email [equityfirst.au@citigroup.com](mailto:equityfirst.au@citigroup.com)

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