

AUSTRALIAN

RESEARCH



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1. Key Features

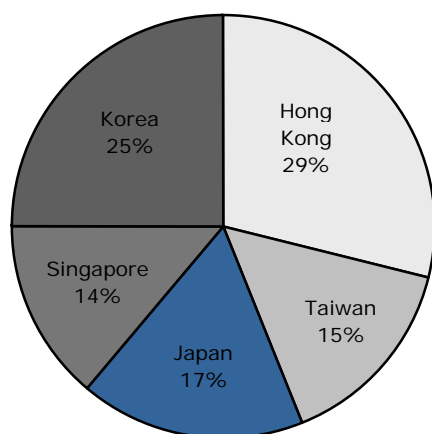


General Information

Name	Asian Income Plus
Security	Yield Income Enhanced Listed Deferred Securities 3 ("YIELDS3")
Underlying Investment	A notional exposure to 30 large-capitalisation Asian securities via a deferred purchase agreement.
Risk	Equity-type risk
Investment Objective	To provide investors with regular income while providing the potential for capital growth by having exposure to Asian equity markets. Investors will also have the comfort of capital protection at maturity.
AEGIS RATING	APPROVED

Offer Details

Diversification



Offer Opens	23 May 2005
Offer Closes	26 July 2005
Maturity Date	2 August 2011
Min. Investment	\$5,000

Notes:

Investors will have exposure to the countries labeled to the left upon application. Over time due to the ranking of individual securities the allocation to each country may change.

Details on the industry diversification is provided in section 4 – Underlying Investments

Fees

Initial Fees	3.3% (including GST) based on the issue price of YIELDS3.
Adviser Commissions	Trail Commission of 0.85% pa (including GST) based on the issue price of YIELDS3, contingent on an allocation to the Strategy.
Ongoing Fees	1.75% pa: Strategy Adjustment Factor contingent on an allocation to the Strategy. 0.75% pa: Dynamic Portfolio Adjustment Factor RBA cash rate + 1.25% pa in the event that the leverage facility is required.
Early Exit Fee	Nil

Source: Asian Income Plus PDS

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2. Executive Summary

- Asian Income Plus is an offer to purchase an ASX listed security called Yield Income Enhanced Listed Deferred Securities 3 ("YIELDS3"). The launch of this product follows the listing of YIELDS1 in July 2004 and YIELDS2 in November 2004.
- YIELDS3 is a six-year capital guaranteed investment issued by Citigroup Global Markets Australia Pty Ltd ("Citigroup"), a member of Citigroup Inc. The guarantee is provided by Citigroup Inc, which is Aa1/AA- rated by Moody's/S&P.
- YIELDS3 is a "deferred purchase agreement", with performance linked to an equity trading strategy known as the Asian Income Plus Trading Strategy III (the "Strategy"). The Strategy replicates a derivative strategy known as a "buy write strategy" to generate income from a portfolio of 30 Asian securities selected from the MSCI AC Asia Index.
- The securities within the Strategy will have sufficient diversification across both countries and sectors. The securities will be from the Hong Kong, Japan, Taiwan, Singapore and Korea exchanges.
- YIELDS3 is likely to perform best when global share markets are posting low returns, either positive or negative. In conditions where share markets are producing strong positive returns, YIELDS3 is likely to under-perform. When markets produce very negative returns, the product will eventually revert to its "Protection Floor", effectively triggering the guarantee mechanism. This is explained in further detail in Section 3.
- The Strategy targets income of 12% pa after costs, so it can be used to potentially enhance the overall yield from a diversified portfolio. It is important to note however that the outcome over the six years can deviate from the 12% pa target. This will be dependent on the level of dividends from the underlying shares and the amounts generated from the call option premiums. Furthermore, the actual coupon on YIELDS3 will deviate from the Strategy target income of 12% pa, as the coupon is dependent on the allocation to the Strategy and the AUD/USD exchange rate. As a consequence the coupon could be higher or lower than 12% pa.
- At maturity, if the value of YIELDS3 is less than the issue price (\$10.00), Citigroup Inc will ensure investors receive \$10 per security. If the underlying assets are valued at more than this, Citigroup will offer investors a facility to sell those assets on behalf of investors, so that the investor can effectively receive a cash payment following the settlement date.
- Citigroup will "make a market" for YIELDS3, thus ensuring investors can buy or sell at a spread around net asset value ("NAV") at any time.

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3. Aegis Overview

Aegis recommends that it be considered for use in a portfolio in two different ways: as a part of an investor's income portfolio or as a diversifier within the international equity section of a portfolio, due to its performance characteristics.

The overall effect of including a small allocation to YIELDS3 will be to lower total downside risk, while lowering the probability of the international equity portfolio returning very high returns. In essence, it will "tighten" the return distribution of an international equity portfolio. Due to its ability to generate good excess returns during flat, trending or moderately performing markets, it can act to diversify the returns available from a physical long only portfolio, such as that built using traditional managed funds.

YIELDS3 can also be used within the portfolio for an income-based investor, such as a retiree, to supplement income, and raise the yield of an overall portfolio. Because coupons are not guaranteed and under certain circumstances, no income will be paid, it is not suitable as the lynch pin of an income portfolio.

It is suitable for investment within a superannuation fund, and for negative gearing purposes.

It will also affect the distribution of returns between growth and income, increasing income returns from the asset class, while lowering capital growth. In doing this though tax related issues for the client should be considered before implementation.

It should be noted that Citigroup does not guarantee the performance objective of 12%. The returns that YIELDS3 will receive are likely to be volatile and dependent upon not only the performance of the underlying securities within the portfolio, but also stock price volatility, interest rates and the exchange rate of the AUD.

We recommend that YIELDS3 be used for a small part of total assets within a diversified portfolio, primarily because the income aspects to the portfolio are expected to be quite volatile. It may be suitable for investors seeking a yield-enhanced product.

Recommendation

Aegis has developed a template for rating structured product offerings in Australia. Factors considered include management, product construction, underlying portfolio construction and management, team and performance. 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.

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The Product Disclosure Statement ("PDS") dated 6 May 2005 was lodged as in use with the Australian Securities and Investments Commission ("ASIC"). The offer of the securities is made in, or accompanied by, a copy of the PDS, and anyone wishing to acquire the securities will need to complete the application form that is in or accompanies the PDS.

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4. Product Overview

YIELDS3 will be issued through an initial public offering ("IPO"), which opens on 23 May 2005 and closes 26 July 2005. Citigroup has applied for the listing of YIELDS3 on the Australian Stock Exchange ("ASX") on or around 9 August 2005, with the expected ASX code of YLDS03. The minimum investment is \$5,000.

YIELDS3 will have a six-year term, and will mature around 2 August 2011. YIELDS3 is capital guaranteed, with the amount of the initial investment being guaranteed to investors at the maturity date.

Citigroup (the "Issuer" of YIELDS3) will "make a market" in the product. That is, they will actively buy and sell YIELDS3 at a spread to fair value via the ASX stock market, the actual level of which will be set by Citigroup on an on-going basis. The first issue of this product, known as YIELDS, has traded between \$8.59 and \$10.10 since listing in early August 2003 the YIELDS2 has traded between \$8.94 and \$10.06 since its listing in December 2004.

The Upfront Fees disclosed in the PDS for YIELDS3 is 3.3% (including GST). The Ongoing Fee disclosed in the PDS is 2.50% pa (including GST). This includes a Trailing Fee of 0.85% pa (contingent on an allocation to the Strategy), a Strategy fee of 1.75% pa (contingent on an allocation to the Strategy) and a Dynamic Portfolio fee of 0.75% pa. These fees have decreased from the previous offer, YIELDS2.

The cost associated with leverage is also payable when or if it is used, but is not used in the calculation of ongoing fees. Leverage is charged at the rate of the RBA Overnight Rate plus 1.25% pa.

Objective of the product

The objective of YIELDS3 is to generate a target annual income of 12% pa (net of the strategy adjustment factor) and to capture a proportion of equity capital growth. Investors should note however that the actual returns received might be quite different from the forecast 12% pa.

Since Asian securities historically have not provided high levels of dividends to investors, income in YIELDS3 will be generated in two ways. First through the premiums that exist in an options strategy known as a "buy-write" strategy, and second through dividends received on securities notionally held in the Asian Income Plus Trading Strategy III.

It should be noted however that the performance objective of the YIELDS3 is not guaranteed. This is explained in more detail in section 5 of this report.

What happens at maturity?

YIELDS3 is a "deferred purchase agreement". Under the deferred purchase agreement, the investor agrees to effectively purchase the underlying assets of the security (the "Delivery Assets"), being either the portfolio of 30 Asian shares that comprise the Asian Income Plus Trading Strategy III (or a similar substitute as determined by Citigroup). These assets are known as the "Delivery Parcel". The value of the Delivery Parcel on the maturity date will be \$10.00 if the guarantee mechanism is triggered on the value of the Dynamic Portfolio on the Maturity Date.

At maturity, there will be two options available to investors:

1. take physical delivery of the Delivery Parcel; or
2. take advantage of the Agency Sale Arrangement, whereby Citigroup will sell the Delivery Parcel on their behalf, and subsequently deliver the sale proceeds to investors.

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How does the security behave in different market conditions and how should it be used in portfolio construction?

The performance of YIELDS3 is linked to the performance of the Asian share markets. In particular the securities will be from Hong Kong, Japan, Korea, Singapore and Taiwan.

YIELDS3 will perform best against traditional equity markets in flat, trending or moderately performing markets, particularly those where only small gains or losses occur. This is because the options written will expire worthless, with the premium collected and distributed to investors.

It will tend to under-perform in strong bull markets, particularly where prices typically rise more than 5% in a given quarter. In this case, the options written within YIELDS3 will be exercised, and YIELDS3 will not participate in capital appreciation above the option strike price.

YIELDS3 will outperform traditional direct equity investment in very weak markets. If market performance is so weak that the product reverts to its zero coupon bond structure, or capital guarantee, the potential loss is limited within YIELDS3. Losses in the direct equity portfolio may not be limited.

YIELDS3 is linked to the performance of a Dynamic Portfolio that provides notional exposure to a combination of the Strategy and a Bond Portfolio. Although it is expected that the Dynamic Portfolio will be at least 100% allocated to the Strategy on issue date, this can change over time.

With respect to income, the Strategy will target a yield of 12% pa. However, a fall in markets will lower the amount available to be distributed. As a guide, the Strategy is likely to derive most of its income (around 11.25%) from the premiums that exist in the options. Around 2.5% is expected to come from the dividends from the underlying securities. This is before the Strategy Adjustment Factor of 1.75%.

For further details on the options strategies, please refer to section 5 of this report.

With the way YIELDS3 is structured, including the dynamic portfolio management, the markets would need to perform poorly over an extended period, say a decline of 40% over a period of time or a one day fall of 20%, for YIELDS3 to revert to a zero coupon structure.

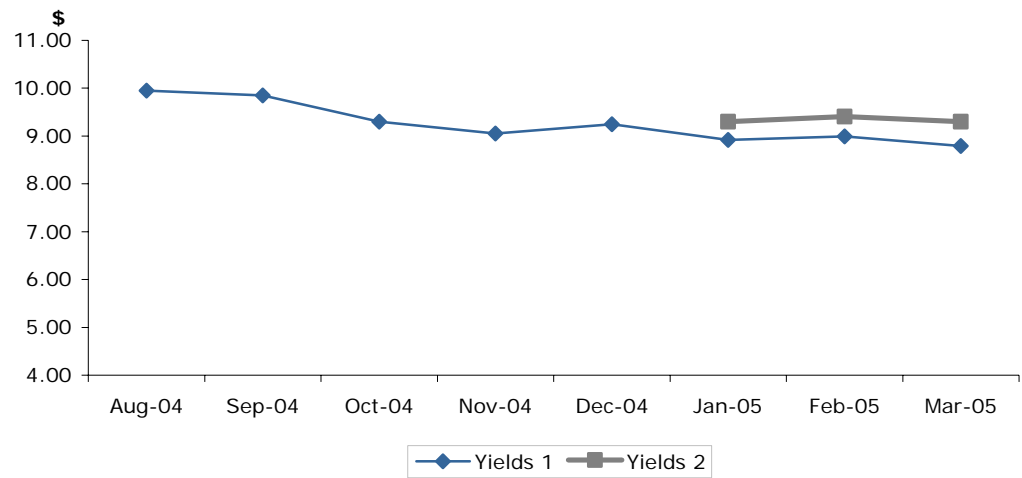
Investors would need to be aware that the capital protection would only be applicable as at the maturity date. In the event that they sold their investment prior to this date the investor may experience a capital loss. However, it may be a smaller loss than that experienced by investing into equity markets directly. An explanation of the capital protection within the security is provided in section 5 of this report — Underlying Investments.

The Performance of the Past YIELDS Issue

The first issue of YIELDS ("YIELDS1") was completed in July 2004 and listed on the ASX in early August 2004 with the second issue of YIELDS ("YIELDS2") being completed in December 2004. Thus, the market performance history for both of these securities of that specific issue is limited.

The trading history shows that YIELDS1 has traded between \$8.59 and \$10.10 since listing in early August 2003, YIELDS2 has traded between \$8.94 and \$10.06 since its listing in December 2004.

Figure 1. Performance of YIELDS1 and YIELDS2 to 31 March 2005



Source: Citigroup

YIELDS1 having peaked at just above \$10.00 has progressively declined in value since listing. What should be remembered, however, is that YIELDS1 has only eight month's performance history in which time it has distributed \$0.52 to investors and was impacted by the appreciation of the AUD. A similar story appears to be evident with the three-month's trading history of YIELDS2. The month end price of YIELDS2 has remained within \$9.30 to \$9.40 but has distributed \$0.37 in that time to investors.

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5. Underlying Investments

The Basics – European Options, Covered Calls and Option Premiums

An option is the right, but not the obligation, to buy or sell an asset at or before a certain date at a certain price. European options, which are the type primarily used in this product, can only be exercised at and not before, the expiry date. On large capitalisation shares, such as the ones considered in this product, options are freely traded on centralised exchanges or "over-the-counter". Options tend to be "short dated", being usually three or six months in length.

The basis of the Asian Income Plus Trading Strategy III is "covered call writing". The Strategy will "write (sell) covered call options". This means that the Strategy *sells the right to buy* the asset, which they already notionally own, at a certain date at a certain price.

To provide an example, Citigroup may write a covered call on Samsung Electronic stock. Citigroup would receive a premium from the buyer of the call option to enter into this agreement. Put simply, this allows the option buyer to purchase the Samsung Electronic stock from Citigroup at a pre-determined date at a pre-determined price. The buyer would only exercise the option if Samsung Electronic's price rose above the pre-determined price. If the price of Samsung Electronic were below the pre-determined price, the buyer would allow the option to expire. In either case, the Strategy would collect a premium from the option buyer.

In YIELDS3, the Strategy will only write options that are "out-of-the-money", or where the price of the share is below the exercise price of the option. Options will be written with an exercise price of between 100% and 130% of the share's prevailing market price. The actual option chosen will depend on the premium available. The premium income derived from this activity is the major source of income for this product. The options are written every quarter, around the beginning of the quarter.

The Evolution of Capital Guarantees in Structured Products

Structured products have often provided capital guarantees as a protection mechanism for investors.

The "first generation" of capital guarantees offered in structured products is provided by using a zero coupon bond, which is a bond that pays no income.

In the YIELDS products, monies are essentially invested in two assets. First, a zero coupon bond with a maturity date and amount matched to the maturity of the product is purchased with part of the investor's initial investment. The rest of the investment monies is then usually geared and invested in the "engine" of the product. In the case of some products, those funds are invested in fund-of-fund hedge funds, but assets such as long only equity funds and derivative strategies have also been used in these structures.

Although very effective in providing a guarantee, the long-term falls in global interest rates experienced for at least the last decade have meant that more and more of the initial investment amount must be invested in the zero coupon bond to provide the guarantee. For example, on a six-year product, at least 70% of funds would now need to be invested in the bond to provide a guarantee. This has meant that gearing levels have had to increase dramatically in order to ensure a meaningful exposure to the alpha generator can be maintained. It has also meant that the investment period for many structured products has increased significantly, with many new issues being longer than ten years in duration.

Further, zero coupon bonds are extremely price sensitive and small movements in interest rates can cause significant volatility in the value of the bond, and the subsequent amount that can be allocated to the underlying investment strategy. In a rising interest rate environment, the value of these bonds on a daily basis will be written down, causing significant volatility in the price of the security.

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In 1986, a methodology known as “constant proportion portfolio insurance” (“CPPI”) was designed. CPPI is a “cushion management technique”. Instead of investing a significant proportion of funds into non-risky assets, these techniques “make reference” to the amount needed in non-risky assets in order to provide the initial amount invested at maturity (the “Protection Floor” or the “Floor”). In doing this, the amount invested in non-risky assets and the subsequent level of gearing needed to generate returns is much lower.

The actual allocation between risky and non-risky assets is calculated by reference to the difference between the total portfolio value and the Floor (the “Cushion”). In CPPI, the actual amount held in risky assets is a constant multiple of the Cushion. In DPI, the multiple is variable.

In principle, as the Strategy does well, the total portfolio and the Cushion will increase in size. Thus, the larger proportion of the fund that can be invested in the Strategy. As the Strategy falls in value, the total portfolio and the Cushion falls in size and less will be allocated to the Strategy, thus protecting the investor’s capital. In brief, as the risky asset does well, more will be allocated to it. If it does poorly, funds will be moved to a non-risky asset in order to protect capital.

For example, in YIELDS3, the amount invested in the Strategy must sit between 15% and 25% the Cushion with the initial allocation to the Strategy being set equal to five times the Cushion or 20%. In the event that the Cushion ever falls outside the band of 15% and 25% the allocation will be automatically rebalanced to five times the Cushion or 20%. For example, if the initial Floor is 80 and the initial total portfolio value is 100, the initial Cushion will be 20. This will mean that the allocation to the Strategy will be equal to 100 (that is, five times the Cushion). If the Strategy falls 5%, then the value of the portfolio will fall to 95. This means that the Cushion will fall to 15% with the result that the allocation to the Strategy will decrease and an allocation to the zero coupon bond will be made. The product will be automatically rebalanced to five times the Cushion, which will mean 75 will be invested in the Strategy, and the remaining 20 will be invested in the Bond Portfolio. The new Cushion will be reset to 20%.

Rebalancing occurs on a non-discretionary real time basis in YIELDS3. This is in comparison to some other CPPI methodologies where rebalancing may only occur weekly or less often.

Citigroup have been using this method of underwriting a capital guarantee for approximately six years, and manage investor’s funds of over US\$5.0B through this type of structure.

Regardless of the method used in achieving the capital guarantee, Citigroup Inc guarantees that investors will receive at least the value of their initial investment at the maturity date of the investment in August 2011.

The Dynamic Portfolio

The value of YIELDS3 is linked to the Dynamic Portfolio notionally made up of two parts: the Equity Portfolio, which is described in detail below, and the Bond Portfolio. The product’s weighting to each portfolio is essentially determined by the performance of the Strategy (the Equity Portfolio), with the capital guarantee being supported by its notional weighting to the Bond Portfolio.

The Protection Floor (also known as the “Floor”) is the percentage at any point in time that needs to be allocated to the Bond Portfolio to generate the issue price by the maturity date. The weightings to both are changed on a real time basis, based on a dynamic allocation mechanism.

The product will begin by being 100% allocated to the Equity Portfolio. If this portfolio performs well through share prices rising, the amount invested in Equity Portfolio will increase up to a maximum of 150%. If the portfolio performs poorly, the amount invested in the Equity Portfolio will decrease, to a minimum of as low as 0%.

The exact amount invested at any time in the Equity Portfolio is dependent on the difference between the value of the Protection Floor and the value of the Dynamic Portfolio, which is the net asset value (“NAV”) of the Dynamic Portfolio. The Equity Portfolio allocation is set to be five times the difference between the NAV of the Dynamic Portfolio and the Protection Floor.

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The Protection Floor on the issue date is the present value of \$10.00 in six year's time. At the time of writing this report the present value was approximately \$7.50. The Protection Floor will increase over time to reflect the present value of \$10.00. The Initial Investment Amount after the upfront fee is \$9.67.

The difference between the NAV and the Protection Floor (expressed as a percentage of the NAV) at any particular point in time is known as the "Gap Risk". This 'Gap Risk' will be initially at 20% but may fluctuate between 15% and 25%.

A Re-leveraging event will occur when the Gap Risk is greater than 25% and conversely a de-leveraging event will occur when the Gap Risk is less than 15%. In both cases the Gap Risk will be reset to approximately 20% and the relevant adjustments to the allocation between the Strategy and the Bond Portfolio will occur.

An example of when a re-leveraging event will occur is when the "Gap Risk" rises above 25%. Assuming the value of the Dynamic Portfolio is initially \$10.00, the Protection Floor is \$8.00 and allocation to the Strategy is 100%, other things being equal if the Gap Risk rises to 26% due to a rise in the value of the Dynamic Portfolio (for example to \$10.81), the allocation to the strategy will increase to 130% ($5 \times \$2.81$)/\$10.81.

An example of when a de-leveraging event will occur is when the "Gap Risk" falls below 15%. Assuming the value of the Dynamic Portfolio is initially \$10.00, the Protection Floor is \$8.00 and allocation to the Strategy is 100%, other things being equal if the Gap Risk fell to 14% due to a fall in the value of the Dynamic Portfolio (for example to \$9.30), the allocation to the strategy will fall to 69% ($5 \times \$1.30$)/\$9.30.

The Asian Income Plus Trading Strategy III

The Asian Income Plus Trading Strategy III (the "Strategy") consists of a "notional" portfolio of 30 of the Asia's largest stocks, as selected from the MSCI AC Asia Index. The portfolio will be constrained to be no more than eight companies from each country or industry. A definition of the Notional Portfolio is provided below in this section.

The securities that will form part of the Strategy have been selected from the MSCI Asia Index that are listed on the exchanges of Hong Kong, Japan, Korea, Singapore and Taiwan.

The selection process will involve ranking the companies within the MSCI AC Asian Index by free-float adjusted market capitalisation and expected total yield. Thirty companies will then be selected and weighted in accordance with the ranking. The stock ranked first will have a weighting of 5% with the stock ranked thirtieth having a weighting of 2%, meaning all other stocks will have a weighting of between 2% and 5%.

Each year there will be an annual review of the securities whereby each company within the Index will be ranked according to the above mentioned process.

The Strategy Fee of 1.75% ("Strategy Factor") will be deducted from the capital value of one unit from the Asian Income Plus Trading Strategy III. This is calculated using the formula

$$N/365 \times 1.75\% \times CV$$

CV = capital value of one unit of the Asian Income Plus Trading Strategy III at the beginning of each quarter in USD.

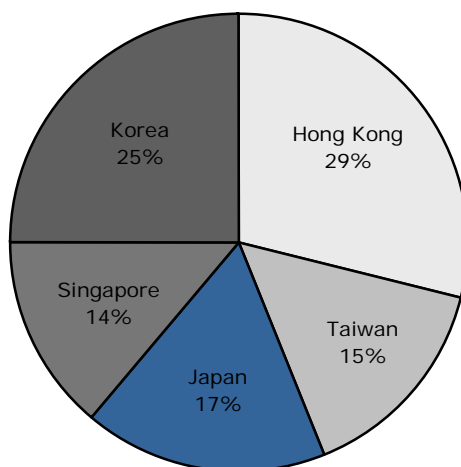
N = the number of days

This fee is calculated at the start of each quarter and accrued daily from income accrued by the Strategy.

Figures 2 and 3 below provide an indication of how the portfolio will be diversified:

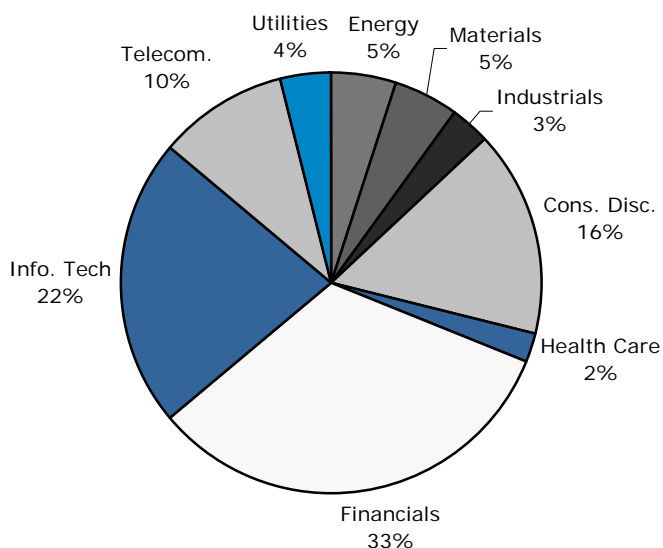
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Figure 2. Country Yields



Source: Citigroup

Figure 3. Industry Yields



Source: Citigroup

From the above diagrams it is evident that there appears to be sufficient diversification from both a country and industry perspective. The security will be diversified across five countries and 10 industries. We note however that there is a high allocation to the financial sector making up close to a 1/3 of the notional portfolio with the top five sectors consisting of 80% of the portfolio.

Citigroup will write covered calls on the stocks at the beginning of a quarter, at a strike price of between 100% and 130% of the stock's current price. The exact option contract that is written will be determined by the amount of premium being offered by each contract. The premium income collected as a result and dividends received on the underlying stocks throughout the quarter together form the income generated by the Strategy.

The target income is 12% pa for the Strategy (after fees the Strategy Factor), so that approximately 3% per quarter will be targeted (the composition being allocated as 0.625% for dividends and 2.8% for option premiums).

Other issues

All investments are “notional”. That is, investors do not own, in their own right, any of the securities held within the Strategy or Dynamic Portfolio, such as a share, a call option or bond. As such, investors do not have any rights (for example, voting rights) in respect of these securities underlying the Dynamic Portfolio. However, investors have a contractual right from Citigroup (in the form of a deferred purchase agreement) entitling them to be paid the performance (including dividends and option premiums) of the investments underlying the Dynamic Portfolio. This is a direct obligation of the Issuer and as a result, accounting systems are used to ensure the correct amount of dividend or option premium is distributed to investors. These systems are subject to internal and external audit on a regular basis.

As the shares held by the portfolio will be derived from Hong Kong, Taiwan, Japan, Korea and Singapore, they may be denominated in a number of different currencies, including US dollars. Currency is not hedged in this product, and this may lead to some volatility in the value of the Strategy and YIELDS3. Changes to the AUD exchange rate against these currencies will therefore impact this product. For example an increase to the AUD could mean that there will be a negative impact on the portfolio performance. Conversely, a decline in the AUD could mean that the performance of the portfolio will increase.

Interest rates will affect the value of the Dynamic Portfolio, the Protection Floor and the premium that can be generated from the buy write strategy. All things being equal, as interest rates rise, the premium that can be generated from the option strategy should increase and the Protection Floor should fall.

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6. SWOT Analysis

Strengths

- The product offers a capital guarantee provided by Citigroup Inc, which is Aa1/AA- rated by Moody's/S&P.
- Daily liquidity in the product is offered through the ASX. Because Citigroup will act as "market makers", investors are able to buy or sell the investment at a spread around fair value.
- The product will provide best returns during flat or moderately moving markets. Thus it can act as a good diversifier within an international equity portfolio.
- It has good applications in income portfolios, as a potential income enhancer.
- Compared with many other structured products with capital guarantees, fees are moderate.

Weaknesses

- If markets do not perform well (a fall of 20% in a single day or 40% over an extended period), performance will be limited to the capital guarantee only. This can lead to a significant short-term capital loss for investors, if they realise the investment before maturity. However, it may be a smaller loss than that experienced by investing into equity markets directly.
- The initial listing price of YIELDS3 (\$9.67) will be lower than issue price (\$10.00), due to the Upfront Fee.
- The security may under-perform during times of strong equity market performance.
- While all the assets held within the security are notional, fees such as buy/sell spreads are being charged on transactions associated with hedging those assets. For example, the notional sale of an option will incur a buy/sell volatility spread. The Issuer, Citigroup, argues that the spread would be significantly higher if such a transaction were carried out by an individual investor at a retail level.

Opportunities

- The YIELDS3 allows investors to effectively benefit through flat periods in equity markets.
- In the case of markets performing very poorly (40% fall over time or 20% fall in one day), YIELDS3's loss is capped by the capital guarantee. A portfolio containing YIELDS3 will then be protected from experiencing the same capital loss experienced by portfolio holding long only international equity funds.
- The YIELDS3 allows investors to source alternative sources of income resulting from the premiums that exist primarily within the options on the underlying stocks. Dividends from the underlying companies are only a secondary source of income in this product.

Threats

- The product can trade at significant discounts or premiums to the issue price, depending on the behaviour of markets, but should never trade below the present value of the guarantee.
- The security may revert to effectively being a zero coupon bond, particularly if markets perform very poorly at the outset of the product.
- As all securities are notionally held, transparency is very important. For example, dividends are only notionally received. Strong audit procedures must be maintained at all times to ensure that correct amounts are passed through to investors. If audit procedures are lax, then investors may not be receiving correct returns. All records are subject to both internal and external audit on a regular basis.

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7. Risks

We refer to section 5, pages 21 – 24, of the PDS and provide the following as a summary only.

- **General market risk.** Movements in the local and international stock markets, prevailing and anticipated economic conditions, interest rates, investor sentiment and general economic conditions could all affect the performance of YIELDS3.
- **Early sale risk.** Investors who wish to sell YIELDS3 early on the secondary market need to be aware that they may be affected by various market factors that could lead to them receiving less than the issue price of YIELDS3.
- **Early maturity risk.** There may be circumstances where an early maturity event occurs resulting in YIELDS3 being terminated early. In this case 30 day's notice will be provided to investors.
- **Factors affecting the Asian Income Plus Trading Strategy III.** The 30 underlying stocks within the Asian Income Plus Trading Strategy III (the "Strategy"), though being some Asia's largest companies by market capitalisation will still be subject to general market conditions and can be affected by economic, financial and political events that may materially impact the underlying share price. This in turn will impact the Strategy and therefore YIELDS3.
- **Dynamic Portfolio risks.** No assurance can be given to the performance of the Dynamic Portfolio. It should be noted that investors may receive less than their initial investment in the event that investors sell prior to maturity, an early maturity event occurs or the Guarantor defaults in respect to its performance obligations to make payments pursuant to the capital guarantee.
- **Factors affecting the payment of coupons.** The payment of the coupons to investors could be impacted by such factors that include income generated by the Strategy, Companies paying dividends and the level of stock implied volatilities remaining stable. Also changes to the allocation to the Strategy will also result in varying coupons. It is important to note that investors can expect to receive variable coupon payments over the life of this investment.
- **Exchange rate risk.** The Strategy has been denominated in US dollars and as such can be affected by exchange rate movements with the AUD and USD. Investors should be aware that if the Strategy performs well, the return investors receive could be eroded (and in fact be negative) if the AUD also strengthens.
- **Event risk.** The returns of YIELDS3 may be impacted by events such as mergers and disposals, price source disruption, trading suspension, material change in the formula and content of taxation laws being changed.
- **Possible illiquidity of trading market.** Investors should be aware that there is no firm indication as to how YIELDS3 will trade on the secondary market. Nor is there evidence as to whether that market will be liquid or illiquid.
- **Political and legal risk with foreign investment.** Investing in offshore financial markets introduces new risks to the investment. YIELDS3 may be subject to various political, legal and geopolitical changes that could adversely impact the performance of the product. For more detail on this risk refer to section 5 of the PDS.
- **Potential conflicts of interest.** The Issuer and other Citigroup companies may conduct transactions as principal and as agent in various securities, including the underlying securities of the portfolio or the financial products that comprise the Dynamic Portfolio. These activities may affect (positively or negatively) the price at which the Delivery Assets trade or the level of the Dynamic Portfolio at any time.

In addition, Aegis has identified the following risks:

- **Transparency.** All assets are notionally held. Systems to ensure correct amounts of dividends, option premiums and stock revaluation are accounted for and distributed may not be audited correctly or may be subject to fraudulent activity.

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8. Entities Involved

Citigroup Global Markets Australia Pty Ltd (Citigroup)

Citigroup Global Markets Australia Pty Ltd (the "Issuer" of YIELDS3) ("Citigroup") is a wholly owned subsidiary and member of Citigroup Inc.

Citigroup is part of a group of companies that comprises one of the largest financial services group in the world, with around 120 million customers in more than 100 countries. The group has been in the Asia Pacific region for over 100 years. The group established a presence in Australia in 1971.

Citigroup Inc (the Guarantor)

Citigroup Inc (the "Guarantor" of YIELDS3) is rated Aa1/AA- by Moody's/S&P. Citigroup Inc is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers with more than 200 million customer accounts doing business in more than 100 countries.

Audited financial information for the Issuer can be found at <http://www.citiwarrants.com.au>. Other information on Citigroup Inc can be found at <http://www.citigroup.com>.

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