

Citi Investment Research Model Portfolio

Moving Overweight the Banks

From Graham Harman and the Citi Investment Research Team

Lopsided Barbell	We tilt to domestic cyclicality with attractive yields versus cash, and away from late cyclicals and stretched multiples. This leaves us overweight banks (in line with our Global Equity Strategists) and underweight resources and energy.
Fundamental Tilts	We are biased towards domestic over international exposure; high dividend yield and low PE and Price/Book, and are cautious of stocks with demanding 2010 EPS growth estimates. Given the strong run in the Australian equity market since early March (+33%), we are a touch underweight beta here.
Overweight:	Banks, REITS, Healthcare, Media, Consumer Discretionary
Underweight:	Resources, Transport, Utilities, Energy
Adds:	ANZ Bank, United Group
Deletes:	Foster's Group, Wesfarmers

Invest in the Citi Model Portfolio using
Citi Instalment Warrants



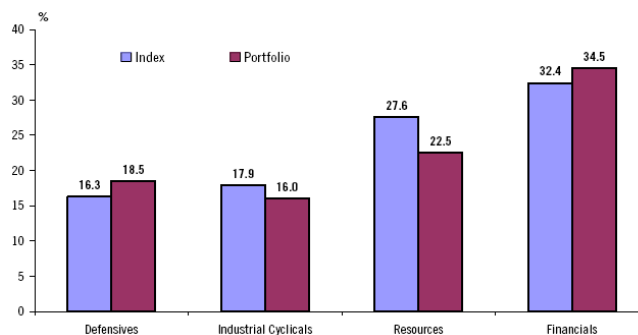
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- We believe we are approaching the “sweet spot” of the economic cycle after negative momentum has abated, but before yield pressures have re-emerged. Citi economists estimate that Australian real GDP will grow 1.3% June qrt-on-June qrt 2010 (ie “through the year”), up from a pedestrian 0.2% June-on-June 2009. Simultaneously, PEs and capitalisation rates will be boosted by a headline annual CPI at 1.5% in the June quarter. Our index targets for the S&P/ASX200 are 4,500 for Dec 2009 and 5,000 for June 2010.
- We still look for a “speed limit” on equity market recovery. Real GDP growth in the world's developed economies will likely be down 4.0% in calendar 2009, on Citi estimates, with only 1.3 percentage points of that flowing back in 2010. Output gaps remain very large across the US, Japan, UK and much of Europe. This widespread excess capacity in our view acts as a significant brake on Australian stocks with northern hemisphere exposure in general, and the resources sector in particular.

Sector Tilts, Stock Selection

- We have been market weight banks for much of this year, with lingering concerns about the troika of bad debt/capital raising/dividend cut risk. We edge 1.5% overweight in this portfolio review, with the recent NAB raising suggesting the market impact of these risks is fading fast. Banks benefit from our upgrades to domestic economic growth estimates (housing updates, lower unemployment peak for this cycle) as well as being clear candidates for switching cash to shares on yield comparatives.
- REITS and property are attractive on a similar argument – we go with majors Westfield and Stockland.
- In domestic economic exposure cum yield space is a weighting to Telcos via Telstra – just slightly over index, and some signs of a company making a fresh start under new leadership.

Figure 1. Model Portfolio Super- Sector Weights vs S&P/ASX 100 Index Weights



Source: Citi Investment Research and Analysis



Investing in the Citi Model Portfolio using Citi Instalments*

- Investors can maximise their exposure to the Citi Model Portfolio by investing in Citi Instalments. An example of the instalments available over the model portfolio include:

Code	Maturity	Loan Amount	Type	Share Price	Warrant Price	Portfolio Wgt
CBAIOA	23-June-2010	\$30.00	Citi Instalment	\$39.90	\$14.31	9%
WBCIOA	23-June-2010	\$16.00	Citi Instalment	\$20.80	\$7.23	9.7%
ANZIOA	23-June-2010	\$14.00	Citi Instalment	\$17.13	\$5.66	8%
SUNIOD	17-July-2011	\$4.25	Citi Instalment	\$7.21	\$4.33	2.5%
IAGIOA	23-June-2010	\$2.50	Citi Instalment	\$3.60	\$1.425	3.5%
QBEIOA	23-June-2010	\$15.00	Citi Instalment	\$19.90	\$7.80	1.8%
WDCIOD	17-June-2011	\$6.50	Citi Instalment	\$11.14	\$6.67	4%
BHPIOA	23-June-2010	\$27.50	Citi Instalment	\$38.00	\$15.31	16.5%
AMCIOA	23-June-2010	\$4.25	Citi Instalment	\$5.05	\$1.675	3%
WPLIOA	23-June-2010	\$34.00	Citi Instalment	\$44.35	\$16.04	6%
FXJIOD	17-June-2011	\$0.75	Citi Instalment	\$1.42	\$0.885	4%
CSLIOA	23-June-2010	\$30.00	Citi Instalment	\$39.90	\$10.16	3.5%
SHLIOD	17-June-2011	\$8.00	Citi Instalment	\$11.08	\$5.94	3%
TLSIOA	23-June-2010	\$2.75	Citi Instalment	\$3.58	\$1.14	5%

*The above is a snapshot of the Citi Model Portfolio and does not constitute advice.

Investors should read the respective Product Disclosure Statements prior to making any Investment Decision.

For more information, including the complete portfolio composition, please contact the Citi Warrants Sales Desk on 1300 30 70 70.

Advantages of Investing in Citi Instalment Warrants

- ✓ Lower initial outlay
- ✓ Enhanced dividend yields and franking credits
- ✓ Dividends and franking credits are paid through to Instalment holders
- ✓ Increased exposure to share price movements
- ✓ Variable gearing levels
- ✓ Potential Tax Benefits
- ✓ Eligible for Self Managed Super Funds
- ✓ No obligation to pay the Final Instalment
- ✓ No margin calls if share price falls
- ✓ Issued over a broad range of blue-chip companies
- ✓ Easily traded on ASX



Other Considerations

Investors should read the relevant Product Disclosure Statement which details the potential risks associated with investing in Self Funding Instalments. Such risks can include:

- factors affecting the price of the warrant, eg the price of the underlying security
- possible illiquidity of trading market
- general market risks
- legislative and tax risks

Contact Details

For further details on this or any other Citi Structured Product please contact the sales desk on 1300 30 70 70 or email australia.warrants@citi.com.

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