

## Equities

3 April 2012 | 120 pages

# Global Emerging Markets Strategist

## EM Quarterly: The Next Leg

- **'Moving On'** — We are almost halfway to our end-2012 target for MSCI GEMs of 1,225; we expect another 17-18% upside to year-end. While progress may be slower from here, as valuations edge higher, we remain long-term bullish.
- **Q2 Risks** — i) further slowing in Chinese macro data; ii) weaker US data as warm weather effects unwind; iii) more hawkish talk from EM central banks. These may extend the current trading range; we would use this 'pause that refreshes' to buy.
- **China** — China's macro data should bottom out in Q2, with a rebound after mid-year; we expect 2012 growth of 8.4%. More RRR cuts are likely, including in Q2. Investors should feel better about China by mid-year than they do now.
- **Drivers** — The 2012 bull market drivers are intact: i) the end of the global growth downgrade process; ii) an upturn in earnings momentum in emerging markets; iii) ample liquidity, including from most EM central banks; and iv) attractive valuations.
- **Discount** — On our range of metrics, EM equities trade at slightly lower discounts to their long-term averages than at the end of 2011. Forward P/E on MSCI GEMs is 10.2x (v. long-term average of 11.4x) and trailing P/E is 11.8x (v 14.8x) - still cheap.
- **Regions/Countries** — We stay O/W in Asia, Neutral in Latin America and U/W in CEEMEA. We raise South Africa to O/W (strong EPS growth, fair valuations and partly defensive) with a focus on domestic names, and lift Egypt and Chile to Neutral. Our other O/Ws are Korea (top pick), Peru, Brazil and China; we have cut back our O/Ws in the latter two as the concern over Chinese growth plays out.
- **Sectors** — We stay Overweight in Financials (top pick), Cons. Discretionary and Energy – a hedge against geopolitical tensions in the Gulf. We would not chase Q1 outperformance of IT and Industrials (both Neutral); Materials are a Neutral.

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### GEMs: Regional, Country and Sector Recommendations

|                  | Overweight                               | Neutral                                      | Underweight  |
|------------------|--|--|--|
| <b>Regions</b>   | Asia                                     | Latin America                                | CEEMEA   |
| <b>Countries</b> | Korea, S Africa ↑, Peru<br>China, Brazil | Russia, Taiwan, Thailand<br>Chile ↑, Egypt ↑ | India, Mexico, Poland<br>Colombia, Hungary, Czech Rep<br>Philippines, Indonesia, Malaysia<br>Turkey, Morocco |
| <b>Sectors</b>   | Financials<br>Consumer Disc<br>Energy    | Info Tech<br>Materials<br>Industrials        | Telecoms, Utilities<br>Health Care<br>Cons Staples   |

Source: CIRA

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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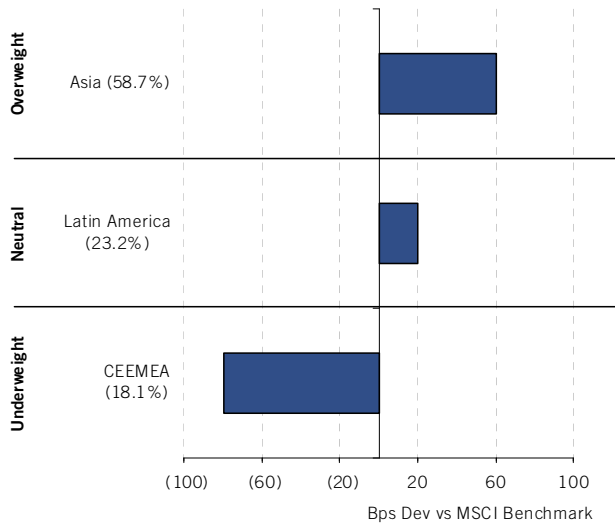
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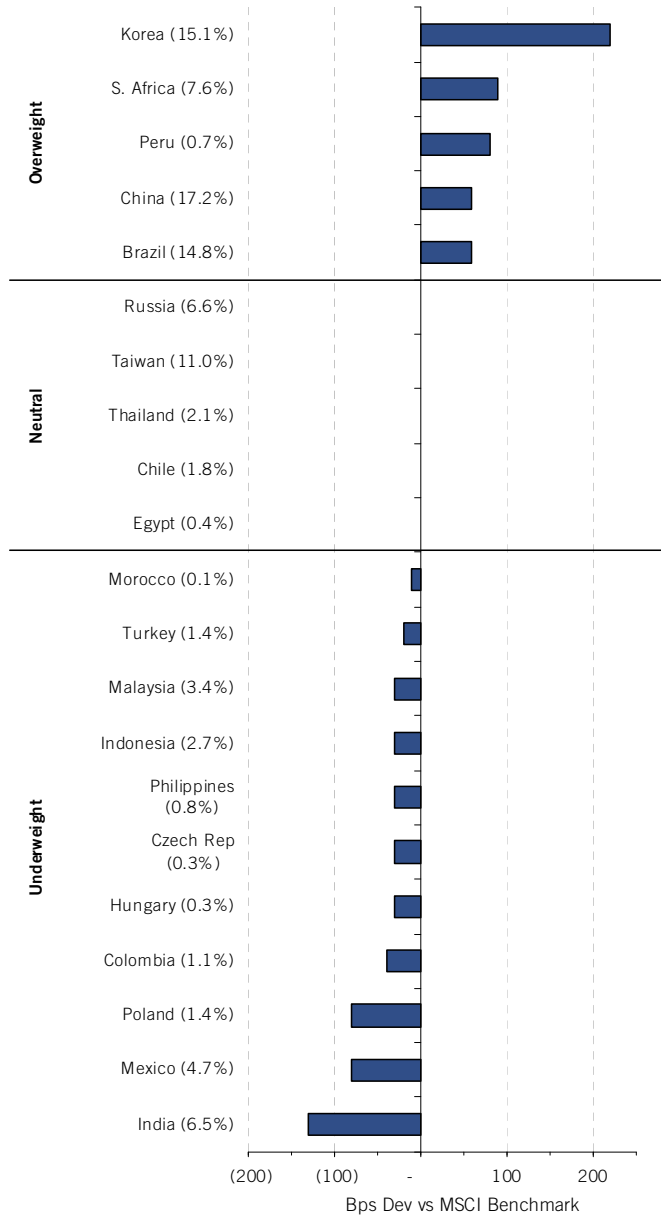
## Regional, Country and Sector Allocations

Figure 1. GEMs Regional, Country and Sector Allocation Screen

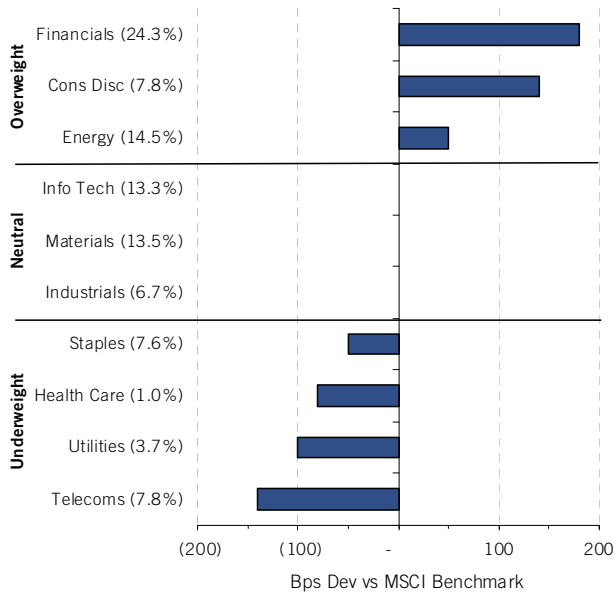
### Regional Allocation



### Country Allocation



### Sector Allocation



Note: Number in parenthesis is benchmark MSCI weight. Please refer to Allocation Model later in this report  
Source: MSCI, FactSet and Citi Investment Research and Analysis



Figure 3. GEMs Stocks: Model Portfolio

|    | Company                    | CIRA<br>Position   | Over/<br>Under (Bps) | MSCI<br>Weight | Portfolio<br>Weight | Ticker    | Country      | Rating | Mkt Cap<br>US\$, mn |
|----|----------------------------|--------------------|----------------------|----------------|---------------------|-----------|--------------|--------|---------------------|
|    | <b>Energy</b>              | <b>Neutral</b>     | <b>50</b>            | <b>14.5%</b>   | <b>15.0%</b>        |           |              |        |                     |
| 1  | CNOOC                      |                    |                      |                | 4.9%                | 0883.HK   | China        | 1      | 91,641              |
| 2  | Surgutneftegaz(pref)       |                    |                      |                | 4.0%                | SNGS_p.RU | Russia       | 1      | 41,396              |
| 3  | Petrobras                  |                    |                      |                | 3.7%                | PETR4.BR  | Brazil       | 1      | 168,025             |
| 4  | Sasol Ltd                  |                    |                      |                | 2.4%                | SOLJ.ZA   | South Africa | 1      | 31,828              |
|    | <b>Materials</b>           | <b>Overweight</b>  | <b>0</b>             | <b>13.5%</b>   | <b>13.5%</b>        |           |              |        |                     |
| 5  | Vale (Preferred)           |                    |                      |                | 4.7%                | VALE5.BR  | Brazil       | 1      | 119,768             |
| 6  | African Rainbow Minerals   |                    |                      |                | 3.5%                | ARIJ.ZA   | South Africa | 1      | 5,056               |
| 7  | Anhui Conch Cement         |                    |                      |                | 3.2%                | 0914.CN   | China        | 1      | 17,538              |
| 8  | PTT Global Chemical        |                    |                      |                | 2.1%                | PTTGC.TH  | Thailand     | 1      | 10,271              |
|    | <b>Industrials</b>         | <b>Neutral</b>     | <b>0</b>             | <b>6.7%</b>    | <b>6.7%</b>         |           |              |        |                     |
| 9  | OHL Brasil                 |                    |                      |                | 2.5%                | OHLB3.BR  | Brazil       | 1      | 2,931               |
| 10 | Daelim Industrial          |                    |                      |                | 2.0%                | 000210.KR | Korea        | 1      | 3,894               |
| 11 | Hyundai Heavy Industries   |                    |                      |                | 1.8%                | 009540.KR | Korea        | 1      | 22,140              |
| 12 | Orascom Construction       |                    |                      |                | 0.4%                | OCIC.EG   | Egypt        | 1      | 8,935               |
|    | <b>Consumer Disc.</b>      | <b>Overweight</b>  | <b>140</b>           | <b>7.8%</b>    | <b>9.2%</b>         |           |              |        |                     |
| 13 | Dongfeng Motor             |                    |                      |                | 3.8%                | 0489.CN   | China        | 1      | 15,777              |
| 14 | Maruti Suzuki India        |                    |                      |                | 2.2%                | MRTI.IN   | India        | 1      | 7,442               |
| 15 | PDG Realty, SA             |                    |                      |                | 2.0%                | PDGR3.BR  | Brazil       | 1      | 3,746               |
| 16 | Tofas                      |                    |                      |                | 1.2%                | TOASO.TR  | Turkey       | 1      | 2,212               |
|    | <b>Consumer Staples</b>    | <b>Underweight</b> | <b>-50</b>           | <b>7.6%</b>    | <b>7.1%</b>         |           |              |        |                     |
| 17 | Mengniu Dairy              |                    |                      |                | 2.8%                | 2319.HK   | China        | 1      | 5,394               |
| 18 | Magnit                     |                    |                      |                | 2.5%                | MGNTq.RU  | Russia       | 1      | 13,815              |
| 19 | Shoprite Holdings          |                    |                      |                | 1.0%                | SHPJ.ZA   | South Africa | 1      | 10,441              |
| 20 | Pick'n Pay Stores          |                    |                      |                | 0.8%                | PIKJ.ZA   | South Africa | 2      | 2,714               |
|    | <b>Health Care</b>         | <b>Underweight</b> | <b>-80</b>           | <b>1.0%</b>    | <b>0.2%</b>         |           |              |        |                     |
|    | <b>Financials</b>          | <b>Overweight</b>  | <b>180</b>           | <b>24.3%</b>   | <b>26.1%</b>        |           |              |        |                     |
| 21 | KB Financial Group         |                    |                      |                | 5.2%                | 105560.KR | Korea        | 1      | 14,515              |
| 22 | Chinatrust FHC             |                    |                      |                | 3.3%                | 2891.TW   | Taiwan       | 1      | 7,011               |
| 23 | Maybank                    |                    |                      |                | 3.1%                | MBBM.MY   | Malaysia     | 1      | 22,384              |
| 24 | Bradesco                   |                    |                      |                | 2.5%                | BBDC4.BR  | Brazil       | 1      | 67,193              |
| 25 | Samsung Fire & Marine      |                    |                      |                | 2.5%                | 000810.KR | Korea        | 1      | 9,320               |
| 26 | Infra. Dev. Finance Corp   |                    |                      |                | 2.3%                | IDFC.IN   | India        | 1      | 4,107               |
| 27 | ICBC                       |                    |                      |                | 2.0%                | 1398.CN   | China        | 1      | 229,703             |
| 28 | Sberbank RF                |                    |                      |                | 1.5%                | SBER.RU   | Russia       | 1      | 74,111              |
| 29 | Credicorp                  |                    |                      |                | 1.5%                | BAP.PE    | Peru         | 1      | 10,707              |
| 30 | Agricultural Bank of China |                    |                      |                | 1.1%                | 1288.CN   | China        | 1      | 143,038             |
| 31 | Nedbank Ltd                |                    |                      |                | 0.8%                | NEDJ.ZA   | South Africa | 1      | 10,933              |
| 32 | Bank Pekao SA              |                    |                      |                | 0.6%                | BAPE.PL   | Poland       | 1      | 13,122              |
|    | <b>Info Tech</b>           | <b>Underweight</b> | <b>0</b>             | <b>13.3%</b>   | <b>13.3%</b>        |           |              |        |                     |
| 33 | TSMC                       |                    |                      |                | 5.0%                | 2330.TW   | Taiwan       | 1      | 74,692              |
| 34 | Samsung Electronics        |                    |                      |                | 4.9%                | 005930.KR | Korea        | 1      | 174,648             |
| 35 | Hon Hai Precision          |                    |                      |                | 2.7%                | 2317.TW   | Taiwan       | 1      | 39,864              |
| 36 | Wipro                      |                    |                      |                | 0.7%                | WIPR.IN   | India        | 1      | 21,533              |
|    | <b>Telecoms</b>            | <b>Underweight</b> | <b>-140</b>          | <b>7.8%</b>    | <b>6.4%</b>         |           |              |        |                     |
| 37 | América Móvil SA de CV     |                    |                      |                | 3.9%                | AMX.MX    | Mexico       | 1      | 100,803             |
| 38 | PT Telkom                  |                    |                      |                | 2.4%                | TLKM.ID   | Indonesia    | 1      | 15,991              |
|    | <b>Utilities</b>           | <b>Neutral</b>     | <b>-100</b>          | <b>3.7%</b>    | <b>2.7%</b>         |           |              |        |                     |
| 39 | Endesa Chile               |                    |                      |                | 1.8%                | EOC.CL    | Chile        | 1      | 15,206              |
| 40 | KEPCO                      |                    |                      |                | 0.9%                | 015760.KR | Korea        | 1      | 12,657              |

A full history of changes to our model is available upon request. No transaction costs are assumed. For methodology, please refer to our "Global Emerging Markets Strategist: GEMs Model Portfolio Update," July 13, 2010. Past performance is no indication of future performance. Source: MSCI, ThomsonReuters and CIRA

**Figure 4. GEMs Stocks: Model Portfolio**

| Company               | CIRA Position | Ticker                     | Sector       | Rating | Mkt Cap US\$, mn | P/E (x) 12E | P/B (x) 12E | Div Yield 12E | EPS gr 12E | P/E (x) 12E | Analyst                           | Analyst Comments  |
|-----------------------|---------------|----------------------------|--------------|--------|------------------|-------------|-------------|---------------|------------|-------------|-----------------------------------|---|
| <b>Brazil</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| OW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 1                     |               | Vale (Preferred)           | Materials    | 1      | \$119,768        | 6.9         | 1.22        | 1.2           | -19%       | 6.9         | Alexander Hacking, CFA            | — high mineral resources supportive of growth in production               |
| 2                     |               | Petrobras                  | Energy       | 1      | \$168,025        | 5.9         | 0.76        | 4.2           | 18%        | 5.9         | Pedro Medeiros                    | — strong LT growth prospects, elevated oil prices supportive              |
| 3                     |               | Bradesco                   | Financials   | 1      | \$67,193         | 9.4         | 1.90        | 3.5           | 15%        | 9.4         | Daniel A. Abut                    | — solid loan growth; NPL ratios stabilizing                               |
| 4                     |               | OHL Brasil                 | Industrials  | 1      | \$2,931          | 12.3        | 2.99        | 1.6           | NM         | 12.3        | Stephen Trent                     | — +/ve growth prospects Brazil toll roads; low risk of IRR markdowns      |
| 5                     |               | PDG Realty, SA             | Cons Disc    | 1      | \$3,746          | 5.9         | 0.85        | 3.5           | 15%        | 5.9         | Dan McGoey, CFA                   | — superior execution & profitability vs peers, strong management          |
| <b>Chile</b>          |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| Neutral               |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 6                     |               | Endesa Chile               | Utilities    | 1      | \$15,206         | 22.1        | 2.72        | 2.8           | -24%       | 22.1        | Marcelo Britto, Andrew J McCarthy | — trading at discount to replacement cost, hydro outlook normalizing      |
| <b>China</b>          |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| OW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 7                     |               | CNOOC                      | Energy       | 1      | \$91,641         | 7.0         | 1.77        | 5.1           | 17%        | 7.0         | Graham Cunningham                 | — positive LT growth prospects and good cost control                      |
| 8                     |               | Dongfeng Motor             | Cons Disc    | 1      | \$15,777         | 8.2         | 1.75        | 1.7           | 19%        | 8.2         | Gerwin Ho                         | — broad product line-up a new models boost LT PV growth potential         |
| 9                     |               | Anhui Conch Cement         | Materials    | 1      | \$17,538         | 11.3        | 2.16        | 2.9           | -18%       | 11.3        | Scarlett Y Chen, CFA              | — lost-cost, high-efficiency cement name with pricing power               |
| 10                    |               | Mengniu Dairy              | Cons Staples | 1      | \$5,394          | 21.0        | 2.64        | 1.2           | 10%        | 21.0        | Jasmine Bai                       | — rising demand for high-end milk products, margin expansion              |
| 11                    |               | ICBC                       | Financials   | 1      | \$229,703        | 6.3         | 1.29        | 5.2           | 13%        | 6.3         | Simon Ho, CFA                     | — highest RoRWA in sector, strongest bank balance sheet                   |
| 12                    |               | Agricultural Bank of China | Financials   | 1      | \$143,038        | 5.8         | 1.18        | 5.4           | 27%        | 5.8         | Simon Ho, CFA                     | — strong deposit franchise, positioned for rural growth                   |
| <b>Colombia</b>       |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| <b>Czech Republic</b> |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| <b>Egypt</b>          |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| Neutral               |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 13                    |               | Orascom Construction       | Industrials  | 1      | \$8,935          | 11.2        | 2.60        | 5.2           | 17%        | 11.2        | Heidy Rehman                      | — exp to high-growth construction mkts, nitrogen fertilizer price mo.     |
| <b>Hungary</b>        |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| <b>India</b>          |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 14                    |               | Infra. Dev. Finance Corp   | Financials   | 1      | \$4,107          | 12.8        | 1.66        | 1.6           | 22%        | 12.8        | Manish Chowdhary, CFA             | — attractive loan growth outlook, strong asset quality track record       |
| 15                    |               | Maruti Suzuki India        | Cons Disc    | 1      | \$7,442          | 25.1        | 2.50        | 0.7           | -37%       | 25.1        | Jamshed Dadabhojy                 | — domestic position in domestic car mkt, which is entering upcycle        |
| 16                    |               | Wipro                      | Info Tech    | 1      | \$21,533         | 19.6        | 3.91        | 1.1           | 5%         | 19.6        | Surendra Goyal, CFA               | — full-service model positioned for growing demand for offshore IT        |
| <b>Indonesia</b>      |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 17                    |               | PT Telkom                  | Telecoms     | 1      | \$15,991         | 10.8        | 2.59        | 5.6           | 13%        | 10.8        | Arthur Pineda                     | — strong momentum in mobile business                                      |
| <b>Korea</b>          |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| OW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 18                    |               | KB Financial Group         | Financials   | 1      | \$14,515         | 6.8         | 0.67        | 4.0           | -7%        | 6.8         | Jinsang Kim                       | — enhanced capital base, should benefit in rising rate environment        |
| 19                    |               | Samsung Electronics        | Info Tech    | 1      | \$174,648        | 9.3         | 1.67        | 0.8           | 58%        | 9.3         | Henry H Kim, CFA                  | — dominant positioning and play on secular smart mobile growth            |
| 20                    |               | Samsung Fire & Marine      | Financials   | 1      | \$9,320          | 12.7        | 1.37        | 2.2           | 22%        | 12.7        | Ss Kim                            | — multi-channel strategy and redesigned product line-up                   |
| 21                    |               | Daelim Industrial          | Industrials  | 1      | \$3,894          | 8.8         | 0.97        | 0.4           | 53%        | 8.8         | Sungmee Park, CFA                 | — strong overseas growth, improving housing P&L                           |
| 22                    |               | Hyundai Heavy Industries   | Industrials  | 1      | \$22,140         | 7.3         | 1.17        | 1.5           | -9%        | 7.3         | Ethan Kim                         | — exp to shipbuilding up-cycle; better visibility on non-ship industrials |
| 23                    |               | KEPCO                      | Utilities    | 1      | \$12,657         | 66.9        | 0.27        | 0.4           | NM         | 66.9        | Pierre Lau                        | — attractive valuation; +/ve newsflow from fuel cost adjustment           |
| <b>Malaysia</b>       |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 24                    |               | Maybank                    | Financials   | 1      | \$22,384         | 13.4        | 1.98        | 8.0           | 6%         | 13.4        | Fiona Leong                       | — improving domestic operations, Econ Transformation Program              |
| <b>Mexico</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 25                    |               | América Móvil SA de CV     | Telecoms     | 1      | \$100,803        | 12.3        | 4.06        | 2.4           | 3%         | 12.3        | Alexandre Garcia                  | — higher & more sustainable ROCE vs peers                                 |
| <b>Morocco</b>        |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| <b>Peru</b>           |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| OW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 26                    |               | Credicorp                  | Financials   | 1      | \$10,707         | 13.5        | 2.72        | 2.1           | 14%        | 13.5        | Daniel A. Abut                    | — strong growth, superior profitability in transforming sector            |
| <b>Philippines</b>    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| <b>Poland</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 27                    |               | Bank Pekao SA              | Financials   | 1      | \$13,122         | 13.8        | 1.79        | 5.8           | 2%         | 13.8        | Andrzej Powierza, Simon Nellis    | — should benefit from inc in lending due to high liquidity/capital base   |
| <b>Russia</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| Neutral               |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 28                    |               | Surgutneftegaz(pref)       | Energy       | 1      | \$41,396         | 3.9         | 0.46        | 10.5          | -18%       | 3.9         | Ronald Paul Smith                 | — deep-value play, discount vs commons should narrow                      |
| 29                    |               | Sberbank RF                | Financials   | 1      | \$74,111         | 6.2         | 1.37        | 3.3           | 6%         | 6.2         | Simon Nellis                      | — strong margins; improved asset quality should control risk costs        |
| 30                    |               | Magnit                     | Cons Staples | 1      | \$13,815         | 25.8        | 4.73        | 0.4           | 21%        | 25.8        | Kirill Kazanli                    | — differentiated play on Russian retail; highest ROIC in sector           |
| <b>South Africa</b>   |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| OW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 31                    |               | African Rainbow Minerals   | Materials    | 1      | \$5,056          | 10.4        | 1.58        | 3.3           | 12%        | 10.4        | Johann Pretorius                  | — long-life, low-cost operations and strong growth opportunities          |
| 32                    |               | Sasol Ltd                  | Energy       | 1      | \$31,828         | 7.3         | 1.75        | 4.9           | 53%        | 7.3         | Tassin Meyer                      | — strong production growth; high gearing to oil / weaker Rand             |
| 33                    |               | Shoprite Holdings          | Cons Staples | 1      | \$10,441         | 23.1        | 6.21        | 2.4           | 19%        | 23.1        | Zaheer Joosub, Brady Martin, CFA  | — recent capital raise +/ve; should benefit from food inflation           |
| 34                    |               | Nedbank Ltd                | Financials   | 1      | \$10,933         | 9.9         | 1.39        | 4.8           | 24%        | 9.9         | Henry Hall, Simon Nellis          | — attractive valuation; transactional business should improve ROE         |
| 35                    |               | Pick'n Pay Stores          | Cons Staples | 2      | \$2,714          | 29.6        | 10.46       | 2.9           | -10%       | 29.6        | Zaheer Joosub, Brady Martin, CFA  | — promising initiatives, but new CEO pick will be key to delivering       |
| <b>Taiwan</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| Neutral               |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 36                    |               | TSMC                       | Info Tech    | 1      | \$74,692         | 15.6        | 3.17        | 3.6           | 5%         | 15.6        | Roland Shu                        | — strong 28nm demand, pricing power, niche embedded flash tech            |
| 37                    |               | Chinatrust FHC             | Financials   | 1      | \$7,011          | 10.7        | 1.30        | 3.7           | 1%         | 10.7        | Bradford Ti                       | — largest private bank in TA; cross-strait reform will be positive        |
| 38                    |               | Hon Hai Precision          | Info Tech    | 1      | \$39,864         | 9.5         | 1.58        | 1.5           | 52%        | 9.5         | Kevin Chang                       | — substantial revenue/earnings exposure to Apple; bargaining power        |
| <b>Thailand</b>       |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| Neutral               |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 39                    |               | PTT Global Chemical        | Materials    | 1      | \$10,271         | 8.9         | 1.44        | 4.5           | 18%        | 8.9         | Amornrat Cheevavichawalkul, CFA   | — leverage to high oil prices; post-merger synergies                      |
| <b>Turkey</b>         |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| UW                    |               |                            |              |        |                  |             |             |               |            |             |                                   |   |
| 40                    |               | Tofas                      | Cons Disc    | 1      | \$2,212          | 7.7         | 1.92        | 7.3           | 5%         | 7.7         | Osman Memisoglu, Heidy Rehman     | — take-or-pay protected export business; high prob of new mandates        |

Source: MSCI, ThomsonReuters and CIRA

## Performance

Figure 5. Performance Update

| 02-Apr-12                            | Market Data |              |              |            | Performance (Local Currency, %) |              |             |             |              | Performance (USD, %) |              |             |             |               |
|--------------------------------------|-------------|--------------|--------------|------------|---------------------------------|--------------|-------------|-------------|--------------|----------------------|--------------|-------------|-------------|---------------|
|                                      | Ticker      | Index        | 52w High     | 52w Low    | 1Wk                             | 1Mo          | 3Mo         | YTD         | 1Yr          | 1Wk                  | 1Mo          | 3Mo         | YTD         | 1Yr           |
| <b>Global Indices</b>                |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| MSCI AC World                        | MXWD        | 336          | 358          | 272        | 0.0                             | 1.5          | 11.4        | 11.4        | (1.5)        | 0.1                  | 1.3          | 12.3        | 12.3        | (2.7)         |
| S&P 500 Index                        | SPX         | 1,419        | 1,422        | 1,075      | 0.2                             | 3.6          | 12.8        | 12.8        | 6.5          | 0.2                  | 3.6          | 12.8        | 12.8        | 6.5           |
| DJ Euro Stoxx 50                     | SX5E        | 2,501        | 3,030        | 1,936      | (1.5)                           | (1.8)        | 8.0         | 8.0         | (15.6)       | (1.7)                | (1.1)        | 10.6        | 10.6        | (20.6)        |
| Japan Nikkei 225                     | NKY         | 10,110       | 10,255       | 8,136      | 0.9                             | 3.4          | 19.6        | 19.6        | 4.1          | 1.9                  | 2.8          | 12.1        | 12.1        | 7.1           |
| <b>MSCI GEMs</b>                     | <b>MXEF</b> | <b>1,048</b> | <b>1,206</b> | <b>831</b> | <b>0.3</b>                      | <b>(1.5)</b> | <b>10.8</b> | <b>10.8</b> | <b>(6.8)</b> | <b>0.3</b>           | <b>(3.0)</b> | <b>14.3</b> | <b>14.3</b> | <b>(11.6)</b> |
| MSCI EM Asia                         | MXMS        | 429          | 494          | 344        | 0.8                             | (1.7)        | 11.4        | 11.4        | (7.7)        | 1.4                  | (2.5)        | 13.4        | 13.4        | (10.3)        |
| MSCI Latin America                   | MXLA        | 4,149        | 4,730        | 3,203      | (0.2)                           | (0.0)        | 10.9        | 10.9        | (2.7)        | (1.0)                | (3.9)        | 15.2        | 15.2        | (11.5)        |
| MSCI EM EMEA                         | MXEE        | 353          | 428          | 277        | (0.5)                           | (2.5)        | 9.0         | 9.0         | (7.8)        | (1.2)                | (3.3)        | 16.4        | 16.4        | (15.4)        |
| <b>MSCI Indices - Asia</b>           |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| China                                | MSEUSCF     | 58           | 71           | 44         | 0.3                             | (6.1)        | 9.8         | 9.8         | (16.2)       | 0.4                  | (6.2)        | 9.9         | 9.9         | (16.0)        |
| Korea                                | MSEUSCO     | 414          | 476          | 308        | 0.9                             | 1.6          | 13.6        | 13.6        | (3.0)        | 2.2                  | 0.5          | 16.0        | 16.0        | (6.2)         |
| Taiwan                               | MSEUSTW     | 272          | 321          | 224        | (0.6)                           | (2.5)        | 10.6        | 10.6        | (9.0)        | (0.2)                | (2.7)        | 13.5        | 13.5        | (9.8)         |
| India                                | MSEUSIA     | 418          | 543          | 344        | 2.8                             | (0.7)        | 15.5        | 15.5        | (10.1)       | 3.6                  | (3.5)        | 20.4        | 20.4        | (21.3)        |
| Malaysia                             | MSDUMAF     | 478          | 492          | 380        | 1.3                             | 1.1          | 4.7         | 4.7         | 1.9          | 2.1                  | (0.6)        | 8.7         | 8.7         | 1.0           |
| Indonesia                            | MSEUSINF    | 912          | 1,015        | 733        | 3.3                             | 3.8          | 6.1         | 6.1         | 8.9          | 3.7                  | 3.1          | 5.3         | 5.3         | 3.7           |
| Thailand                             | MSEUSTHF    | 388          | 394          | 266        | 0.8                             | 1.4          | 17.9        | 17.9        | 10.0         | 0.6                  | 0.6          | 20.7        | 20.7        | 8.1           |
| Philippines                          | MSEUSPHF    | 410          | 412          | 293        | 1.6                             | 1.3          | 17.7        | 17.7        | 17.9         | 2.5                  | 1.2          | 20.9        | 20.9        | 19.7          |
| <b>MSCI Indices - Latin America</b>  |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| Brazil                               | MXBR        | 3,224        | 3,923        | 2,515      | (1.4)                           | (2.0)        | 12.0        | 12.0        | (6.1)        | (2.3)                | (7.5)        | 14.1        | 14.1        | (16.9)        |
| Mexico                               | MXMX        | 6,546        | 6,645        | 4,948      | 2.8                             | 4.4          | 7.0         | 7.0         | 7.0          | 1.9                  | 4.3          | 16.8        | 16.8        | (0.7)         |
| Chile                                | MXCL        | 2,681        | 2,909        | 1,904      | 0.6                             | 2.3          | 10.5        | 10.5        | (0.1)        | 0.8                  | 1.9          | 18.2        | 18.2        | (1.9)         |
| Colombia                             | MXCO        | 1,230        | 1,243        | 956        | 0.4                             | 2.2          | 9.5         | 9.5         | 5.7          | (1.0)                | 1.7          | 19.0        | 19.0        | 10.3          |
| Peru                                 | MXPE        | 1,577        | 1,589        | 1,204      | 2.9                             | 3.4          | 13.9        | 13.9        | 0.7          | 2.9                  | 3.5          | 14.0        | 14.0        | 0.8           |
| <b>MSCI Indices - CEEMEA</b>         |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| South Africa                         | MSEUSSA     | 563          | 626          | 452        | 1.2                             | (0.9)        | 5.4         | 5.4         | 6.0          | 0.5                  | (2.5)        | 11.3        | 11.3        | (6.8)         |
| Russia                               | MXRU        | 879          | 1,129        | 634        | (2.5)                           | (5.6)        | 10.5        | 10.5        | (18.0)       | (3.6)                | (5.8)        | 19.3        | 19.3        | (20.5)        |
| Israel                               | MXIL        | 219          | 279          | 185        | 2.0                             | 1.7          | 7.7         | 7.7         | (14.3)       | 1.9                  | 4.1          | 10.6        | 10.6        | (20.0)        |
| Turkey                               | MSEUSTK     | 507          | 657          | 388        | 0.5                             | 2.9          | 21.0        | 21.0        | (3.3)        | 0.9                  | 2.0          | 28.2        | 28.2        | (16.6)        |
| Poland                               | MSEUSPO     | 810          | 1,210        | 660        | (0.1)                           | (0.5)        | 7.4         | 7.4         | (19.9)       | (0.8)                | (0.5)        | 18.3        | 18.3        | (26.8)        |
| Hungary                              | MSEUSHG     | 530          | 901          | 401        | (2.7)                           | (3.5)        | 11.8        | 11.8        | (23.5)       | (4.1)                | (4.4)        | 22.4        | 22.4        | (35.2)        |
| Egypt                                | MSIUEG      | 613          | 668          | 436        | 1.2                             | (6.2)        | 39.3        | 39.3        | (5.4)        | 1.3                  | (6.3)        | 39.1        | 39.1        | (6.6)         |
| Czech Republic                       | MSEUSCZ     | 491          | 654          | 418        | (0.4)                           | (1.0)        | 4.0         | 4.0         | (9.4)        | (1.3)                | (0.4)        | 9.9         | 9.9         | (15.7)        |
| Morocco                              | MSIUMOR     | 387          | 504          | 372        | 0.1                             | (3.0)        | 1.3         | 1.3         | (14.6)       | 0.0                  | (2.6)        | 3.4         | 3.4         | (18.8)        |
| <b>Local Indices - Asia</b>          |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| China SHANGHAI                       | SHCOMP      | 2,263        | 3,057        | 2,148      | (3.7)                           | (8.0)        | 2.9         | 2.9         | (23.7)       | (3.5)                | (8.0)        | 2.8         | 2.8         | (20.7)        |
| Korea KOSPI                          | KOSPI       | 2,029        | 2,231        | 1,645      | 0.5                             | (0.3)        | 11.1        | 11.1        | (4.3)        | 1.7                  | (1.4)        | 13.5        | 13.5        | (7.5)         |
| Taiwan TAIEX                         | TWSE        | 7,863        | 9,100        | 6,609      | (1.3)                           | (3.5)        | 11.2        | 11.2        | (9.7)        | (0.9)                | (3.7)        | 14.1        | 14.1        | (10.4)        |
| India SENSEX                         | SENSEX      | 17,478       | 19,811       | 15,136     | 2.5                             | (0.9)        | 13.1        | 13.1        | (10.0)       | 3.3                  | (3.7)        | 17.9        | 17.9        | (21.2)        |
| Malaysia KLSE                        | KLCI        | 1,604        | 1,604        | 1,311      | 1.3                             | 1.3          | 4.8         | 4.8         | 3.1          | 2.2                  | (0.4)        | 8.7         | 8.7         | 2.2           |
| Indonesia JSX                        | JCI         | 4,166        | 4,196        | 3,218      | 3.3                             | 4.0          | 9.0         | 9.0         | 12.4         | 3.7                  | 3.3          | 8.1         | 8.1         | 7.0           |
| Thailand SET                         | SET         | 1,199        | 1,214        | 844        | 0.9                             | 2.9          | 16.9        | 16.9        | 12.7         | 0.7                  | 2.1          | 19.7        | 19.7        | 10.7          |
| <b>Local Indices - Latin America</b> |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| Brazil Bovespa                       | IBOV        | 65,216       | 70,108       | 47,793     | (2.2)                           | (3.8)        | 14.9        | 14.9        | (5.8)        | (3.1)                | (9.3)        | 17.1        | 17.1        | (16.7)        |
| Mexico IPC/Bolsa                     | MEXBOL      | 39,909       | 39,964       | 31,562     | 2.7                             | 4.1          | 7.6         | 7.6         | 5.6          | 1.8                  | 4.1          | 17.6        | 17.6        | (1.9)         |
| Chile IPSA                           | IGPA        | 4,695        | 4,878        | 3,606      | 0.7                             | 3.1          | 12.4        | 12.4        | (0.4)        | 1.0                  | 2.7          | 20.2        | 20.2        | (2.1)         |
| Argentina Merval                     | MERVAL      | 2,684        | 3,541        | 2,212      | (0.3)                           | (2.7)        | 9.0         | 9.0         | (22.7)       | (0.5)                | (3.3)        | 7.2         | 7.2         | (28.4)        |
| Peru BVL General                     | IGBVL       | 24,052       | 24,095       | 17,150     | 3.1                             | 3.8          | 23.5        | 23.5        | 11.5         | 3.2                  | 4.2          | 24.9        | 24.9        | 17.5          |
| Colombia IBB Gen                     | IGBC        | 15,039       | 15,288       | 12,151     | (0.5)                           | (1.1)        | 18.7        | 18.7        | 4.7          | (1.9)                | (1.6)        | 29.0        | 29.0        | 9.3           |
| <b>Local Indices - CEEMEA</b>        |             |              |              |            |                                 |              |             |             |              |                      |              |             |             |               |
| South Africa JSE                     | JALSH       | 33,975       | 34,601       | 28,305     | 0.9                             | (0.6)        | 6.2         | 6.2         | 4.9          | 0.2                  | (2.2)        | 12.2        | 12.2        | (7.7)         |
| Russian RTS                          | RTS\$       | 1,643        | 2,124        | 1,217      | (4.1)                           | (4.8)        | 18.9        | 18.9        | (20.9)       | n/a                  | n/a          | n/a         | n/a         | n/a           |
| Israel TA 100                        | TA-100      | 1,046        | 1,222        | 898        | (0.6)                           | 4.7          | 6.9         | 6.9         | (13.4)       | (0.7)                | 7.1          | 9.8         | 9.8         | (19.1)        |
| Turkey ISE                           | XU100       | 63,042       | 70,786       | 48,759     | 0.6                             | 3.4          | 22.4        | 22.4        | (4.4)        | 1.0                  | 2.5          | 29.7        | 29.7        | (17.5)        |
| Poland WIG 20                        | WIG20       | 2,301        | 2,933        | 2,090      | (0.2)                           | (1.0)        | 7.3         | 7.3         | (20.0)       | (0.9)                | (1.0)        | 18.2        | 18.2        | (26.9)        |
| Hungary BUX                          | BUX         | 18,578       | 24,531       | 14,623     | (2.7)                           | (3.8)        | 9.5         | 9.5         | (21.4)       | (4.2)                | (4.7)        | 19.8        | 19.8        | (33.4)        |
| Czech PX-50                          | PX          | 968          | 1,275        | 843        | (2.0)                           | (4.9)        | 6.2         | 6.2         | (23.0)       | (2.9)                | (4.3)        | 12.2        | 12.2        | (28.4)        |

Source: MSCI, FactSet and Citi Investment Research and Analysis



## Valuations

Figure 6. MSCI GEMs Valuations

| 30 Mar 12            | Free MC<br>US\$bn | Wgt<br>%   | P/E         |             |             | EPS YoY %   |             |             | P/B<br>12E  | ROE<br>12E  | Div Yld<br>12E | EV/<br>Sales | EV/<br>EBITDA |
|----------------------|-------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|--------------|---------------|
|                      |                   |            | 11E         | 12E         | 13E         | 11E         | 12E         | 13E         |             |             |                | 11           | 11            |
| <b>Global</b>        | <b>28,584</b>     | <b>100</b> | <b>13.5</b> | <b>12.3</b> | <b>10.9</b> | <b>7.2</b>  | <b>10.3</b> | <b>13.2</b> | <b>1.63</b> | <b>13.3</b> | <b>2.9</b>     | <b>1.5</b>   | <b>7.4</b>    |
| Developed World      | 24,887            | 87.1       | 13.9        | 12.6        | 11.1        | 6.7         | 10.6        | 13.3        | 1.65        | 13.1        | 2.8            | 1.5          | 7.5           |
| Emerging World       | 3,696             | 12.9       | 11.6        | 10.6        | 9.5         | 10.2        | 8.6         | 12.6        | 1.52        | 14.3        | 3.0            | 1.5          | 6.8           |
| <b>Em Asia</b>       | <b>2,167</b>      | <b>7.6</b> | <b>12.9</b> | <b>11.2</b> | <b>9.8</b>  | <b>2.2</b>  | <b>15.5</b> | <b>15.3</b> | <b>1.60</b> | <b>14.2</b> | <b>2.7</b>     | <b>1.4</b>   | <b>7.1</b>    |
| China                | 635               | 2.2        | 10.4        | 9.4         | 8.3         | 15.0        | 10.6        | 12.6        | 1.48        | 15.8        | 3.4            | 1.6          | 6.9           |
| Korea                | 557               | 1.9        | 11.6        | 9.6         | 8.6         | -1.6        | 20.7        | 15.3        | 1.23        | 12.8        | 1.3            | 0.9          | 5.5           |
| Taiwan               | 406               | 1.4        | 17.3        | 15.5        | 12.5        | -26.5       | 19.9        | 24.8        | 1.76        | 11.3        | 3.7            | 1.3          | 7.5           |
| India                | 239               | 0.8        | 16.2        | 14.1        | 12.2        | 12.6        | 15.2        | 14.8        | 2.28        | 16.2        | 1.6            | 2.2          | 10.4          |
| Malaysia             | 124               | 0.4        | 17.0        | 14.9        | 13.4        | 8.1         | 14.3        | 10.7        | 2.08        | 13.9        | 3.5            | 2.3          | 9.6           |
| Indonesia            | 101               | 0.4        | 15.3        | 13.8        | 12.1        | 22.4        | 11.1        | 14.2        | 3.20        | 23.1        | 2.8            | 2.5          | 8.1           |
| Thailand             | 76                | 0.3        | 13.8        | 11.8        | 10.3        | 17.8        | 16.7        | 15.4        | 2.11        | 17.8        | 3.6            | 1.2          | 7.3           |
| Philippines          | 29                | 0.1        | 18.7        | 17.0        | 15.2        | 1.0         | 10.1        | 11.5        | 2.60        | 15.1        | 2.3            | 2.8          | 10.4          |
| <b>Latin America</b> | <b>854</b>        | <b>3.0</b> | <b>12.7</b> | <b>12.1</b> | <b>10.7</b> | <b>8.6</b>  | <b>5.4</b>  | <b>12.2</b> | <b>1.68</b> | <b>14.0</b> | <b>3.3</b>     | <b>1.9</b>   | <b>6.7</b>    |
| Brazil               | 547               | 1.9        | 10.8        | 10.6        | 9.5         | 8.5         | 1.9         | 11.0        | 1.43        | 13.6        | 3.8            | 1.7          | 6.1           |
| Mexico               | 175               | 0.6        | 20.5        | 17.0        | 13.9        | 7.6         | 20.3        | 18.6        | 2.51        | 14.7        | 1.9            | 2.1          | 7.9           |
| Chile                | 68                | 0.2        | 19.0        | 17.2        | 15.4        | -1.2        | 10.5        | 12.0        | 2.43        | 14.0        | 2.5            | 2.2          | 10.3          |
| Colombia             | 40                | 0.1        | 18.6        | 16.2        | 14.6        | 26.7        | 14.7        | 11.5        | 2.52        | 17.6        | 3.2            | 2.9          | 12.1          |
| Peru                 | 24                | 0.1        | 13.0        | 11.6        | 10.3        | 22.7        | 12.0        | 12.5        | 3.01        | 24.7        | 2.9            | 4.7          | 8.8           |
| <b>CEEMEA</b>        | <b>675</b>        | <b>2.4</b> | <b>8.0</b>  | <b>8.1</b>  | <b>7.5</b>  | <b>32.5</b> | <b>-2.2</b> | <b>6.9</b>  | <b>1.19</b> | <b>14.8</b> | <b>3.9</b>     | <b>1.4</b>   | <b>5.7</b>    |
| South Africa         | 280               | 1.0        | 13.5        | 11.2        | 9.8         | 20.6        | 19.8        | 14.5        | 2.00        | 17.8        | 4.0            | 1.6          | 7.6           |
| Russia               | 251               | 0.9        | 5.2         | 5.6         | 5.5         | 46.6        | -11.4       | 2.4         | 0.79        | 14.0        | 3.3            | 1.2          | 4.6           |
| Poland               | 52                | 0.18       | 8.1         | 10.1        | 10.0        | 40.5        | -20.1       | 1.1         | 1.16        | 11.5        | 5.5            | 1.3          | 3.9           |
| Turkey               | 51                | 0.18       | 11.0        | 9.9         | 8.8         | -3.4        | 10.4        | 12.9        | 1.52        | 15.3        | 3.2            | 1.3          | 7.9           |
| Egypt                | 13                | 0.05       | 11.1        | 9.4         | 8.9         | 0.8         | 18.3        | 9.5         | 1.31        | 13.4        | 3.9            | 2.3          | 7.5           |
| Czech Republic       | 12                | 0.04       | 11.8        | 10.8        | 10.5        | -16.7       | 8.8         | 3.5         | 1.75        | 16.2        | 6.6            | 2.6          | 5.6           |
| Hungary              | 11                | 0.04       | 10.5        | 8.9         | 7.6         | -10.5       | 18.2        | 17.1        | 0.89        | 10.0        | 4.0            | 0.8          | 5.2           |
| Morocco              | 5                 | 0.02       | 14.2        | 12.9        | 14.4        | -4.0        | 10.0        | 2.1         | 3.97        | 26.9        | 5.5            | 4.2          | 6.8           |
| <b>GEMs Sectors</b>  |                   |            |             |             |             |             |             |             |             |             |                |              |               |
| Energy               | 521               | 14.1       | 7.0         | 7.2         | 7.0         | 29.0        | -4.8        | 3.7         | 1.00        | 13.8        | 3.5            | 1.6          | 5.7           |
| Materials            | 478               | 12.9       | 10.0        | 10.0        | 8.8         | 18.8        | -0.2        | 13.7        | 1.43        | 14.4        | 3.5            | 1.5          | 6.8           |
| Industrials          | 247               | 6.7        | 14.9        | 12.8        | 10.8        | -9.4        | 16.5        | 17.6        | 1.49        | 11.7        | 2.1            | 1.1          | 8.0           |
| Consumer Disc.       | 293               | 7.9        | 12.4        | 10.7        | 9.9         | 18.0        | 16.2        | 13.8        | 1.96        | 18.3        | 1.7            | 1.5          | 7.1           |
| Consumer Staples     | 296               | 8.0        | 24.0        | 20.2        | 17.6        | -1.5        | 18.8        | 15.0        | 3.31        | 16.3        | 2.3            | 1.7          | 12.6          |
| Health Care          | 38                | 1.0        | 21.1        | 18.1        | 15.7        | 13.6        | 16.5        | 15.6        | 2.75        | 15.1        | 1.6            | 1.6          | 14.6          |
| Financials           | 878               | 23.7       | 10.4        | 9.4         | 8.3         | 19.9        | 10.3        | 12.9        | 1.37        | 14.7        | 3.5            | NA           | NA            |
| IT                   | 514               | 13.9       | 18.3        | 14.1        | 11.3        | -28.9       | 38.6        | 24.8        | 2.07        | 14.7        | 2.2            | 1.4          | 7.7           |
| Telecoms             | 296               | 8.0        | 13.6        | 12.6        | 11.4        | 3.0         | 7.9         | 10.6        | 2.06        | 16.4        | 4.5            | 1.8          | 4.9           |
| Utilities            | 137               | 3.7        | 14.9        | 12.7        | 11.3        | -5.8        | 16.9        | 12.9        | 1.05        | 8.3         | 3.5            | 1.9          | 8.0           |

Source: MSCI, IBES, FactSet and Citi Investment Research and Analysis

# Macro Outlook

Figure 7. CIRA EM Macro Forecasts

|                      | GDP Growth  |             |             | CPI Inflation |             |             | Current Balance (% of GDP) |              |              | Fiscal Balance (% of GDP) |              |              |
|----------------------|-------------|-------------|-------------|---------------|-------------|-------------|----------------------------|--------------|--------------|---------------------------|--------------|--------------|
|                      | 2011F       | 2012F       | 2013F       | 2011F         | 2012F       | 2013F       | 2011F                      | 2012F        | 2013F        | 2011F                     | 2012F        | 2013F        |
| <b>Asia</b>          | <b>7.2%</b> | <b>6.9%</b> | <b>7.3%</b> | <b>5.7%</b>   | <b>4.1%</b> | <b>4.2%</b> | <b>4.0%</b>                | <b>2.3%</b>  | <b>1.6%</b>  | <b>-2.2%</b>              | <b>-2.6%</b> | <b>-2.2%</b> |
| China                | 9.2         | 8.4         | 8.6         | 5.4           | 3.3         | 3.7         | 2.8                        | 2.0          | 1.5          | -1.3                      | -2.0         | -1.5         |
| India                | 6.9         | 7.0         | 7.5         | 9.0           | 7.0         | 6.5         | -3.5                       | -3.6         | -3.2         | -8.0                      | -7.7         | -7.5         |
| Indonesia            | 6.5         | 6.2         | 6.5         | 5.4           | 5.8         | 5.3         | 0.2                        | -0.7         | -0.8         | -1.2                      | -1.5         | -0.7         |
| Korea                | 3.6         | 3.7         | 4.4         | 4.0           | 3.3         | 3.3         | 2.5                        | 1.1          | 1.0          | 0.4                       | 1.4          | 1.2          |
| Malaysia             | 5.1         | 5.0         | 5.3         | 3.2           | 2.5         | 2.8         | 11.5                       | 10.5         | 9.0          | -5.0                      | -5.0         | -4.7         |
| Philippines          | 3.7         | 4.0         | 4.5         | 4.8           | 3.5         | 4.0         | 2.5                        | 2.0          | 1.3          | -1.6                      | -2.0         | -1.3         |
| Taiwan               | 4.0         | 3.7         | 4.2         | 1.4           | 1.7         | 1.9         | 8.8                        | 8.7          | 8.4          | -1.9                      | -2.0         | -1.8         |
| Thailand             | 0.1         | 3.8         | 5.0         | 3.8           | 2.9         | 3.3         | 3.4                        | -1.3         | -0.5         | -1.5                      | -3.8         | -2.7         |
| <b>Latin America</b> | <b>4.2%</b> | <b>3.6%</b> | <b>4.4%</b> | <b>7.0%</b>   | <b>6.6%</b> | <b>6.8%</b> | <b>-1.0%</b>               | <b>-1.0%</b> | <b>-1.3%</b> | <b>-2.3%</b>              | <b>-2.0%</b> | <b>-2.3%</b> |
| Brazil               | 2.7         | 3.3         | 4.5         | 6.6           | 5.5         | 5.5         | -2.1                       | -2.1         | -2.4         | -2.6                      | -1.9         | -2.6         |
| Chile                | 6.0         | 4.2         | 5.0         | 3.3           | 3.8         | 3.1         | -1.4                       | -1.9         | -1.9         | 1.6                       | 0.7          | 0.6          |
| Colombia             | 5.8         | 5.1         | 5.2         | 3.4           | 3.7         | 4.2         | -2.8                       | -3.0         | -2.9         | -2.9                      | -3.0         | -2.5         |
| Mexico               | 3.9         | 3.3         | 3.5         | 3.4           | 4.1         | 3.7         | -0.8                       | -1.6         | -1.9         | -2.5                      | -2.2         | -2.0         |
| Peru                 | 6.9         | 5.5         | 6.5         | 3.4           | 3.5         | 3.0         | -1.3                       | -2.4         | -2.8         | 1.7                       | 1.2          | -0.3         |
| <b>CEEMEA</b>        | <b>4.9%</b> | <b>2.9%</b> | <b>3.7%</b> | <b>6.7%</b>   | <b>5.8%</b> | <b>5.7%</b> | <b>-0.4%</b>               | <b>-0.2%</b> | <b>-1.0%</b> | <b>-0.9%</b>              | <b>-1.5%</b> | <b>-1.4%</b> |
| Czech Republic       | 1.7         | -0.4        | 1.8         | 1.9           | 3.4         | 2.6         | -2.3                       | -3.6         | -3.4         | -3.7                      | -3.7         | -3.1         |
| Hungary              | 1.7         | 0.0         | 1.4         | 3.9           | 5.6         | 3.5         | 1.5                        | 1.4          | 1.6          | 3.5                       | -3.2         | -3.0         |
| Poland               | 4.3         | 2.7         | 2.4         | 4.2           | 3.8         | 2.6         | -4.1                       | -3.2         | -4.0         | -5.1                      | -3.3         | -2.7         |
| Russia               | 4.3         | 3.5         | 4.0         | 8.4           | 5.5         | 6.8         | 5.5                        | 3.2          | 0.6          | 0.8                       | -0.3         | -0.5         |
| Turkey               | 8.2         | 2.5         | 4.3         | 6.5           | 9.5         | 7.0         | -10.2                      | -8.7         | -8.3         | -1.3                      | -2.2         | -2.5         |
| Egypt                | 1.8         | 3.0         | 3.9         | 10.2          | 12.1        | 14.4        | -2.4                       | -2.7         | -3.1         | -10.1                     | -8.6         | -6.5         |
| South Africa         | 3.1         | 2.9         | 3.8         | 5.0           | 6.0         | 5.0         | -3.4                       | -4.7         | -5.6         | -5.0                      | -4.8         | -4.2         |
| <b>Total</b>         | <b>6.1%</b> | <b>5.3%</b> | <b>5.9%</b> | <b>6.1%</b>   | <b>5.1%</b> | <b>5.2%</b> | <b>2.2%</b>                | <b>1.5%</b>  | <b>1.7%</b>  | <b>-1.5%</b>              | <b>-1.7%</b> | <b>-1.5%</b> |

Note: Regional aggregates include select countries that are not in the MSCI universe.  
Source: National Sources and Citi Investment Research and Analysis

Figure 8. GEMs Sovereign Credit Ratings

|                  | S & P |                               | Moody's |                                  | Fitch |   |
|------------------|-------|-------------------------------|---------|----------------------------------|-------|---|
| Investment Grade | AAA   |                               | Aaa     |                                  | AAA   |   |
|                  | AA+   |                               | Aa 1    |                                  | AA+   |   |
|                  | AA    |                               | Aa 2    |                                  | AA    |   |
|                  | AA-   | China, Czech Republic, Taiwan | Aa 3    | Chile, China, Taiwan             | AA-   |   |
|                  | A+    | Chile                         | A1      | Czech Republic, Korea            | A+    | Chile, China, Czech Republic, Korea, Taiwan |
|                  | A     | Korea                         | A2      | Poland                           | A     |   |
|                  | A-    | Poland, Malaysia              | A3      | South Africa, Malaysia           | A-    | Poland, Malaysia                            |
|                  | BBB+  | South Africa, Thailand        | Baa1    | Mexico, Russia, Thailand         | BBB+  | South Africa                                |
|                  | BBB   | Brazil, Mexico, Peru, Russia  | Baa2    | Brazil                           | BBB   | Brazil, Mexico, Peru, Russia, Thailand      |
|                  | BBB-  | Colombia, India, Morocco      | Baa3    | Colombia, India, Indonesia, Peru | BBB-  | Colombia, India, Indonesia, Morocco         |
| High Yield       | BB+   | Indonesia, Hungary            | Ba1     | Hungary, Morocco                 | BB+   | Philippines, Turkey, Hungary                |
|                  | BB    | Philippines, Turkey           | Ba2     | Philippines, Turkey              | BB    |   |
|                  | BB-   |                               | Ba3     |                                  | BB-   | Egypt                                       |
|                  | B+    |                               | B1      |                                  | B+    |   |
|                  | B     | Egypt                         | B2      | Egypt                            | B     |   |

Source: Bloomberg

# Election Monitor

Figure 9. Key 2012 Elections

| Country      | Date        | Elections                            | Commentary   |
|--------------|-------------|--------------------------------------|--|
| Taiwan       | January 14  | Presidential & Legislative Elections | In line with expectations, Ma Ying-jeou, the leader of the ruling KMT party, defeated Tsai Ing-wen, of the DPP, in Jan. 14 Presidential Elections. The outcome is viewed as favorable for equity markets, as Ma's first term was characterized by the pursuit of closer ties with China through trade agreements.  |
| Russia       | March 4     | Presidential Elections               | Vladimir Putin won a third term as President in the first round of elections. However, popular protests may continue, dependent on the shape of the new government and the outlook for reforms. Most at risk from political change are the rentier companies (e.g. in metals and mining) and oligarch-controlled companies. Beneficiaries of higher government spending would be retailers, while we also like deep-value asset plays.                                     |
| Korea        | April 11    | Parliamentary Elections              | Populist pledges will be in fashion in 2012 when National Assembly and presidential elections coincide. We prefer exporters as many domestic sectors will be hurt by such pledges and political uncertainty. Sectors vulnerable to more regulation include Internet, Telecoms, Utilities, Consumer and Banks; the usual boost to Construction in an election year may be muted as policies focus on welfare, rather than infrastructure spending.                          |
| Egypt        | June        | Presidential Elections               | The presidential election will define how cooperative politics are within the regime and whether economic policy consensus emerges. However, the vote is not about the regime's sustainability; geopolitical risk has peaked, in our view. Also, talks with the IMF are ongoing prior to the election. The risks are that: i) the revolution has not run its course; and ii) the Islamist leadership alienates its support base and is replaced by a more radical element. |
| Mexico       | July 1      | Presidential & Legislative Elections | Polls point to a return to power of the PRI, under Enrique Pena Nieto (EPN). With little dispute over the need to maintain economic stability, the key issue will be whether any party can secure a majority in Congress to pursue structural reforms. Under EPN, private-public partnerships are possible in the energy sector. One goal is likely to be to tackle entrenched monopolies; in this event, the telecoms and media sectors would likely suffer.              |
| Malaysia     | 2H 2012     | General Elections                    | The key will be whether the ruling Barisan Nasional (BN) party wins an overall majority in parliament in the elections expected later in 2012. This positive outcome for the market stands in contrast to the other extreme - that the BN loses power - which would be a major negative. Banks, Construction and Utilities are expected to be the most sensitive sectors to different political outcomes and should be major beneficiaries of a big BN victory.            |
| China        | Autumn      | Leadership Transition                | China's leadership change is occurring as the traditional model (generating 10% annual growth) is becoming exhausted. The key issue is what reforms will be pursued (e.g. interest rate liberalization, stronger RMB and capital account deregulation) to support consumption and reduce Investment. Reforms will boost the market and support wealth management, capital goods, IT, consumption and service sectors over SOEs and highly-leveraged sectors.               |
| US           | November 6  | Presidential & Legislative Elections | Elections for the President and Congress. Incumbent Democratic President, Barack Obama, will run against the winner of the Republican primaries, most likely favored, Mitt Romney, ex-Governor of Massachusetts. On current legislation, fiscal tightening worth 3.5% of GDP will come into effect in 2013.  |
| Korea        | December 19 | Presidential Elections               | The opposition victory in the mayoral election in Seoul has opened up the field for the presidential elections in December. Park Geun-hye of the Saenuri party (formerly the GNP) remains the frontrunner, but the opposition is coalescing around the candidacy of Professor Ahn Chul-soo.  |
| South Africa | December    | Party Congress                       | Given that South Africa is essentially a one-party state, December's ANC leadership election is more important than the 2014 general election. The main issue is mine tenure security; the sector is vulnerable to talk of nationalization although we think higher taxes on miners are more likely. Other vulnerable sectors are Energy (with fears of an oil windfall tax) and gambling-related stocks (with a withholding tax on gaming revenues looming as a threat).  |

1. See also *Global Political Insights*, Tina Fordham, in "The Road Ahead 2012: North America", December 13, 2011.

Sources: IFS Election Guide- Election Calendar, World Events Calendar-Council on Foreign Relations and Citi Investment Research and Analysis

# The Emerging World: Map and Key Statistics

Figure 10. Member Countries of MSCI Emerging Markets Index

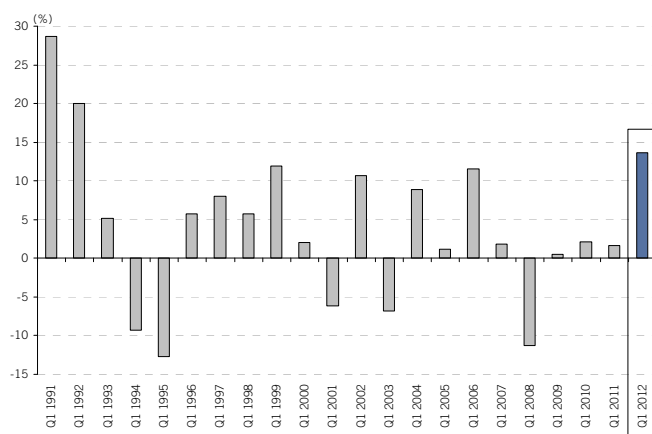


\*Volume for China includes both Shanghai and Shenzhen exchanges. ADV as of End- February.  
Source: MSCI, Bloomberg, World Federation of Exchanges, FactSet and Citi Investment Research and Analysis

## The Next Leg?

Our last two flagship Quarterly reports were entitled, respectively 'Discounting Global Recession' and 'Awaiting the Turn in Global Growth'<sup>1</sup>. Three months on from the last report – and despite worries over China and Europe and a potential weather-related slowdown in US data - it now appears that the turn in global growth is finally underway. With Citi's forecast for Global GDP growth in 2012 bottoming out at 2.3% in January (down sharply from 3.9% last May – discussed in more detail below) and rebounding to 2.5% in March, the global growth downgrade process may now be over. This, along with: i) ample liquidity creation by the world's major central banks (including two major LTRO facilities created by the ECB which have calmed the EU debt crisis); ii) falling interest rates in emerging markets also; iii) a turn in earnings momentum; and iv) attractive valuations, has all helped to fuel a strong rally in emerging market equities in the first quarter of 2012.

Figure 11. MSCI GEMs: First Quarter Performances (since 1990)



Source: MSCI, Datastream and CIRA

Figure 12. MSCI GEMs with Moving Averages



Source: MSCI, Datastream and CIRA

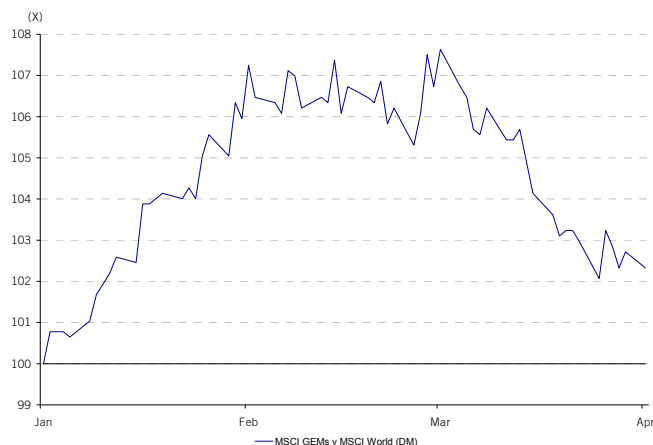
MSCI GEMs rose by 13.7% in Q1. This was the best first calendar quarter for EM equities since 1992 (Figure 11) and the best single quarter since 2010 Q3. There have only been twelve better quarters so far this century (making Q1 a top quartile performance). And yet, given that all of the Q1 gains were recorded in the first two months, with March showing a loss for MSCI GEMs (-3.5%), the quarter ended with a strong tinge of disappointment. EM equities have been in their current trading range now for two months (Figure 12), still 14% below their spring-2010 high. Moreover, since early-March, EM equities have been underperforming DM equities once again, shaving their year-to-date outperformance to less than 300bp by the end of Q1 (Figure 13 below). Meanwhile, investor sentiment, as measured by our 'Whether Vane' indicator – having shot up from outright 'panic' in the early-autumn to just above Neutral in early-2012 – has remained stubbornly flat since (Figure 13).

**Our view is that the recent flat performance by EM equities is the 'pause that refreshes'. Boosted by the four key factors (above) that supported higher markets in early-2012, we expect EM equities to eventually break out again to the upside.** Our end-year target for MSCI GEMs of 1225 (which - on current EPS forecasts - would still leave EM equities at a 10% discount to their long-term

<sup>1</sup> "EM Quarterly: Discounting Recession", *Global Emerging Markets Strategist*, Geoffrey Dennis, October 6, 2011 and "EM Quarterly: Awaiting the Turn in Global Growth", *Global Emerging Markets Strategist*, Geoffrey Dennis, January 10, 2012.

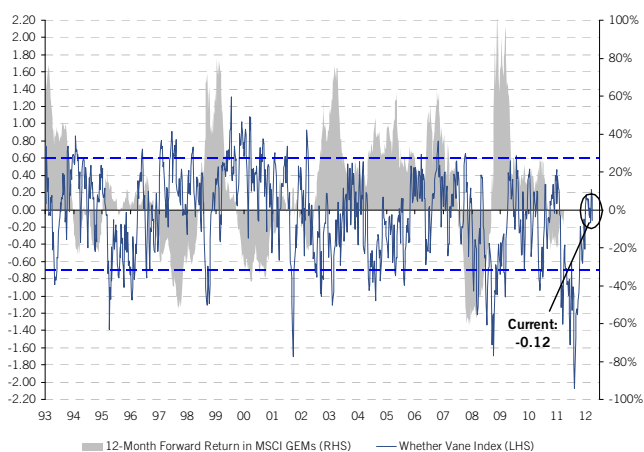
average of 11.4x forward) is 17-18% above current levels; we are almost halfway there. Progress may be slower from now and there are short-term risks; however, given valuations that are 10-20% below recent averages and improving earnings momentum, another 15%+ upside from here should not be an overly high hurdle. We remain buyers of EM equities and would use the current pause to add.

Figure 13. MSCI GEMs v MSCI World (DM): Q1 Relative Performance



Source: MSCI, Datastream and CIRA

Figure 14. GEMs "Whether Vane"



Source: EPFR, Bloomberg, IBES, Datastream and CIRA

## The Global Economy Turns

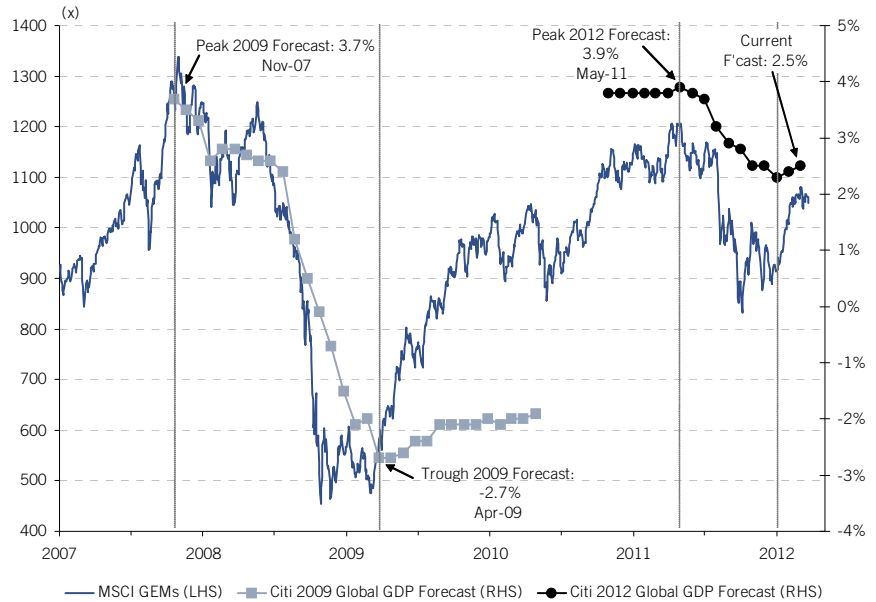
We noted in our Q1 outlook report how the collapse of Citi's forecast for global growth in 2009 from +3.7% in late-2007 to -2.7% in early-2009 was tracked very closely by the MSCI GEMs index through its worst bear market ever (Figure 15 below). As soon as that 2009 GDP forecast bottomed out early that year (in the end, Global GDP contracted by 'only' 2.1% in 2009), EM equities took off. **Therefore, despite 2009 being the worst year for the global economy since the 1930s and recorded corporate earnings in emerging markets falling all year, the MSCI GEMs index rose by 74.5% - its best year ever!** By the start of 2009 all the bad news was priced in and EM equities were very cheap at 8.5x trailing earnings.

Now, if we fast forward again to the present, Citi's global growth forecast for 2012 peaked at 3.9% last May (having hovered just below that level for all the first half of last year) and then collapsed to just 2.3% this past January. In turn, the MSCI GEMs index peaked in early-May 2009, fell through another bear market (-31%) and then bottomed in early-October. Since then, EM equities have rebounded by 25%, albeit very erratically, with very strong months (October, January-February), some weak months (such as November and March) and including one full-fledged correction (of 13% between late-October and late-November).

In our Q1 report, we suggested that the rebound in EM equities since October was signaling an imminent rebound in our outlook for the global economy. Three months on, the fast start to this year by equity markets *has* been underpinned by just this - a modest uptick in our global growth forecast by 10bp in each of the last two months to 2.5% in March; this is a strong hint that the global growth downgrade process is now over and should be a bullish signal for EM equity markets. These global growth upgrades have also eased investor worry over a major 'tail risk' - a collapse of the global economy back into recession. In the limit, as Figure 15 shows, the upturn in

our global growth forecast for 2012 makes a return to the dark days of 2009 – when Global GDP contracted by 1.9% - very unlikely.

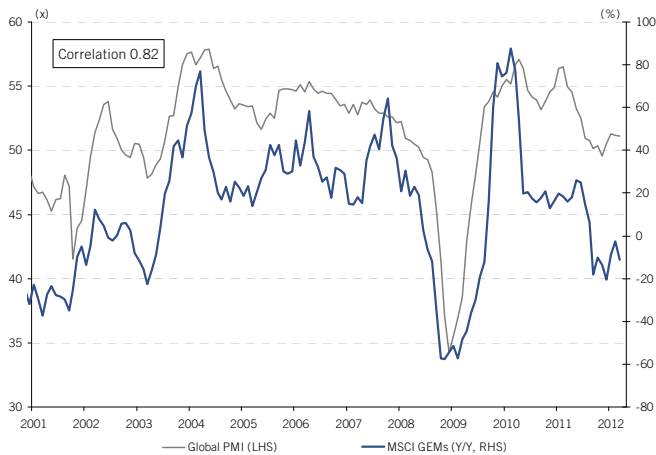
Figure 15. Citi Global GDP Forecasts and EM Equities



Source: MSCI, Datastream and CIRA

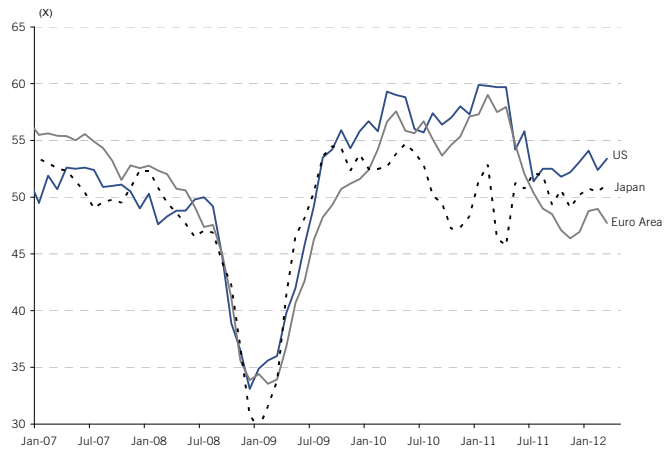
This prognosis is also supported by Purchasing Managers' Indices from around the world. Over the past decade, the global PMI<sup>2</sup> has had a close correlation with MSCI GEMs of 0.83 (Figure 16). The global PMI began to rebound in November, so also supporting the recent recovery in EM equities. Individual country PMIs have also been rebounding virtually across the board - for the major developed country regions (Figure 17), the four BRICs (Figure 18) and also for Korea, Taiwan and South Africa – the other members of the 'Big Seven' emerging markets (Figure 18).

Figure 16. Global PMI (Level) and EM Equities (YY Change)



Source: MSCI, Datastream and CIRA

Figure 17. PMIs: Developed Economy (DM) Regions

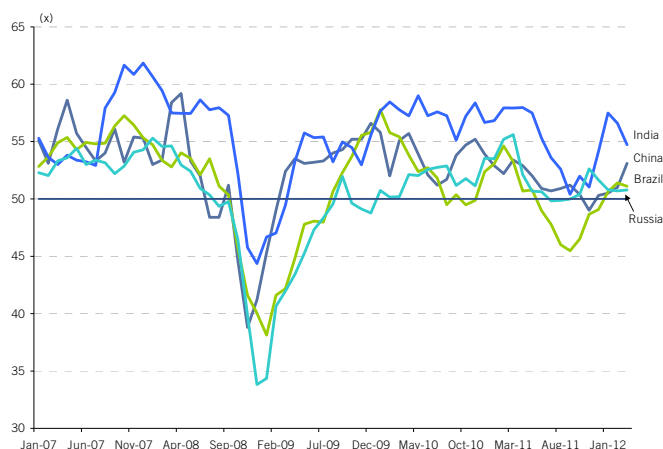


Source: MSCI, Haver, Datastream and CIRA

<sup>2</sup> Published by HSBC Markit.

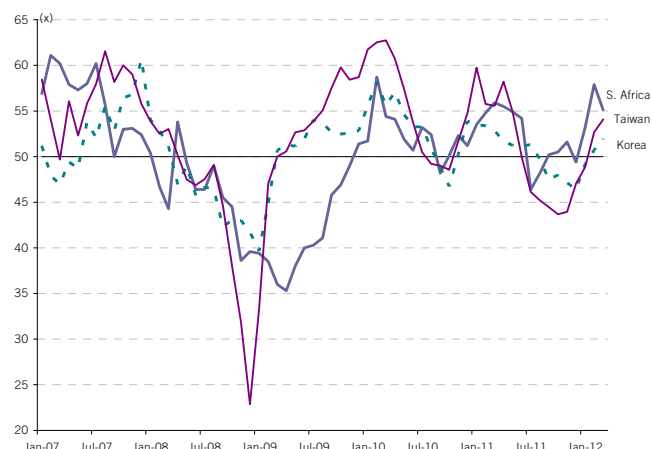


Figure 18. PMIs: BRICs



Source: Haver and CIRA

Figure 19. PMIs: Korea, Taiwan, S Africa



Source: Haver and CIRA

This evidence of a broad upturn in PMIs since late-2011 is not invalidated by fears (at the time of writing) that those same indices may pull back again in the very near term. This is due, for example, to concern over a renewed slowdown in US data (as the effects of mild winter weather earlier in the year reverse) and, more clearly, in the ongoing weakness of the Euro Area. There continues to be worry over the extent of the growth slowdown in China. Nonetheless, we believe that a long-term bottom was put in for many of these PMIs late last year, as well as for our forecast for global growth for 2012. Assuming these hold, as we expect, this supports further gains in EM equities later this year.

Figure 20. The Global Macro Background: 2008-13

|                      | GDP Growth (%) |       |      |       |       |       | CPI Inflation (%) |       |       |
|----------------------|----------------|-------|------|-------|-------|-------|-------------------|-------|-------|
|                      | 2008           | 2009  | 2010 | 2011F | 2012F | 2013F | 2011F             | 2012F | 2013F |
| Global               | 1.5            | (1.9) | 4.2  | 3.0   | 2.5   | 3.0   | 3.7               | 3.1   | 3.0   |
| Industrial Countries | 0.1            | (3.5) | 2.7  | 1.3   | 0.8   | 1.2   | 2.3               | 1.9   | 1.6   |
| Emerging Markets     | 5.2            | 1.4   | 7.3  | 6.1   | 5.3   | 5.9   | 6.1               | 5.1   | 5.2   |
| US                   | 0.4            | (2.6) | 3.0  | 1.7   | 2.1   | 2.0   | 2.5               | 2.1   | 1.8   |
| Eurozone             | 0.6            | (4.1) | 1.8  | 1.5   | (1.2) | (0.2) | 2.7               | 2.5   | 1.9   |
| Asia                 | 6.2            | 5.8   | 9.2  | 7.2   | 6.9   | 7.3   | 5.7               | 4.1   | 4.2   |
| Latin America        | 3.7            | (2.2) | 6.1  | 4.2   | 3.6   | 4.4   | 7.0               | 6.6   | 6.8   |
| CEEMEA               | 4.1            | (5.2) | 4.6  | 5.0   | 2.9   | 3.7   | 6.7               | 5.9   | 5.7   |
| China                | 9.0            | 9.1   | 10.4 | 9.2   | 8.4   | 8.6   | 5.4               | 3.3   | 3.7   |
| Brazil               | 5.1            | (0.2) | 7.5  | 2.7   | 3.3   | 4.5   | 6.6               | 5.5   | 5.5   |
| India                | 6.7            | 7.4   | 8.5  | 6.9   | 7.0   | 7.5   | 9.0               | 7.0   | 6.5   |
| Russia               | 5.6            | (7.9) | 4.0  | 4.3   | 3.5   | 4.0   | 8.4               | 5.5   | 6.6   |
| Korea                | 2.2            | 0.2   | 6.2  | 3.6   | 3.7   | 4.4   | 4.0               | 3.3   | 3.3   |
| Taiwan               | 0.1            | (1.9) | 10.8 | 4.0   | 3.7   | 4.2   | 1.4               | 1.7   | 1.9   |
| South Africa         | 3.1            | (1.8) | 2.8  | 3.1   | 2.9   | 3.8   | 5.0               | 6.0   | 5.4   |

Source: Citi Investment Research and Analysis

Within Citi's current forecast for 2.5% global growth in 2012, Industrial Countries' growth should remain very sluggish at 0.8%. US growth is expected to pick up from last year's 1.7% rate, but still remain at a very sub-par 2.1% in 2012, with little material change next year either. The Euro Area is already officially back in recession, with GDP expected to fall by 1.2% in 2012 and by another 0.2% in 2013. Our economists do not expect the *level* of overall economic activity in the Euro Area

to bottom out until 2013 Q1. The Japanese economy is expected to rebound from the effects of the earthquake and tsunami of March 2011, which a GDP contraction of 0.7% last year expected to be followed by growth of 1.4-1.5% in 2012-13.

### Emerging Markets Still Leading

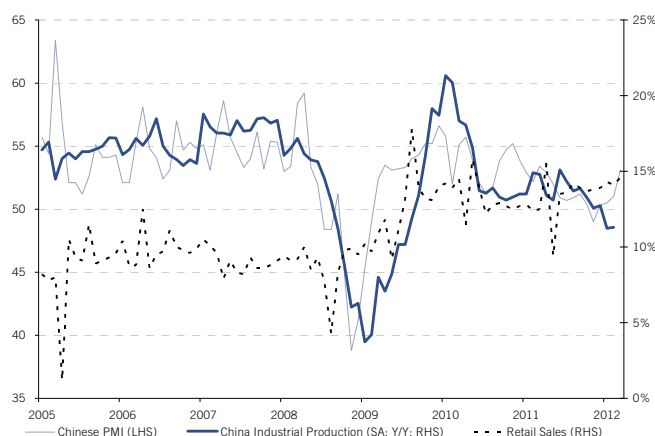
We expect GDP growth in the emerging markets to continue to far outpace DM growth, although our forecast for EM growth in 2012 of 5.3% is still a significant dip from 6.1% growth last year, before a rebound occurs to 5.9% in 2013. Within EM, earlier downgrades have left our forecast for growth in China (see below) at 8.4%, below last year's outturn of 9.2%, while we expect another year of 7% growth in India. For the other 'Big Seven' countries, we expect GDP growth of 3-4% in 2012 and then 4%+ in 2013 for all except South Africa (3.8%). Of these top seven EM, we have seen downgrades to 2012 growth forecasts since late last year in Brazil (to 3.3% from 3.5%) and Taiwan (to 3.7% from 4%) while, in the other direction, we have recently upgraded our GDP forecast for Russia in 2012 to 3.5% from 2.5%.

Elsewhere in EM, there have been some downgrades to GDP forecasts for 2012 since the end of last year. For Hungary (to -0.1% from +0.1%) and the Czech Republic (to -0.4% from 0%), these cuts are linked to earlier downgrades of Euro Area growth; we also now expect GDP growth of 5% in Peru, down from 5.5% a few months ago. However, upgrades to growth forecasts still predominate with higher projections for 2012 compared to late last year for Thailand (3.8%) – due to the dip in the economy in Q4 after the recent disastrous floods – Colombia (5.1%), Mexico (3.3%) – boosted by stronger US growth - Poland (2.8%) and Egypt (3.3%).

### China: Target - 7.5%; Growth to Exceed 8%

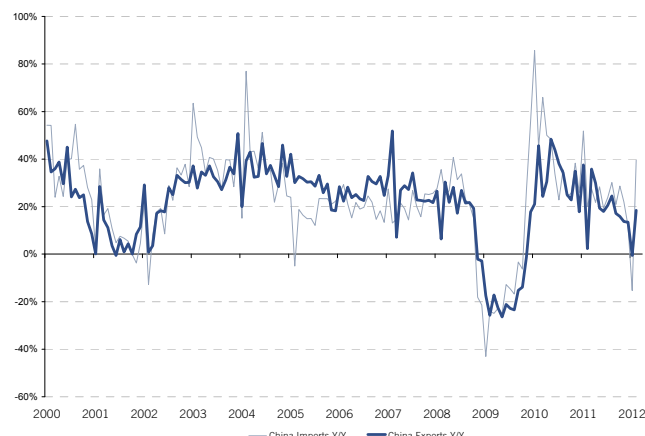
The concern in China is the evidence of a more extended slowdown than seemed likely just a few months ago. Citi's view remains that China will suffer its worst quarter for growth in Q1 (at around 8%), but will not see a hard landing. Most Chinese economic data are quoted in the year-on-year terms and so have seemed to amplify the weakness recently, given the strong growth and high base for comparison from 2011 Q1. We expect GDP growth to level out at around Q1 rates in the second quarter and then to rebound strongly in the second half of the year. Our full year forecast of 8.4% growth is well above the Chinese government's official target of 7.5%, which is truly a floor, not a target, for growth.

Figure 21. Chinese Industrial Prod., Retail Sales (Y/Y) and PMI (Level)



Source: Chinese Nat'l Bureau of Stats, Customs, Haver and CIRA

Figure 22. Chinese Exports, Imports (Y/Y)



Source: Chinese Nat'l Bureau of Stats, Customs, Haver and CIRA

As the current slowdown proceeds, further modest deceleration in the growth of retail sales, industrial production and exports/imports may occur (Figures 21-22)<sup>3</sup>. While China continues to face the more severe challenge – *over time* - to shift the sources of growth from Investment (and partly Exports) to Consumer Spending, they have ample tools to cushion the economy in the near-term as it slows. There has been disappointment over the slow speed of monetary easing (i.e Reserve Requirement – RRR – cuts) which we put down to the authorities' relative comfort with the slowdown that is underway and the need to ensure that inflation stays subdued in this leadership transition year. Our base case is still for: i) 3-4 RRR cuts over the rest of 2012; and ii) fiscal easing of up to 1.5% of GDP. These policy moves, combined with easier comps for the real economy, should ensure much improved growth numbers and better sentiment towards Chinese equities later this year and even by mid-year.

### Earnings Momentum Turns

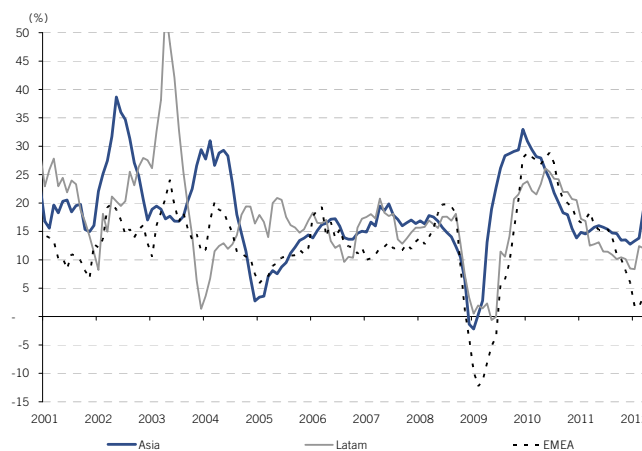
In parallel with the recent rebound in our global growth forecast for 2012, our work has also highlighted the recent evidence of an upturn in projections for corporate earnings growth in the emerging markets<sup>4</sup>. Earnings momentum – defined as twelve-month forward consensus earnings forecasts – fell from 30% in January 2010 to 9% in January 2012; at twenty-four months, this was the longest ever period of deteriorating earnings momentum in emerging markets. After rebounding to 10.5% in February, there has been a more clear-cut pick-up in earnings momentum in March to 13.7% (Figure 23). The regional pattern remains much the same. Earnings momentum has rebounded to just below 19% in Asia and to 12% in Latin America; while earnings mo for CEEMEA is off the bottom at 3.7% in March, it remains very weak (Figure 24).

Figure 23. MSCI GEMs v MSCI World (DM) Forward Consensus Growth



Source: MSCI, IBES, Datastream and Citi Investment Research and Analysis

Figure 24. GEMs Regions: Forward Consensus EPS Growth



Source: MSCI, IBES, Datastream and Citi Investment Research and Analysis

Given the significant rise of the past two months, the evidence of a rebound in earnings momentum is fairly broad in terms of both country and sector. Earnings momentum has rebounded for 14 of the 21 countries in Figure 25, including all four BRICS and for several other large markets including Korea, Taiwan and Mexico; the

<sup>3</sup> The recent monthly growth rates have been distorted by the effect of Chinese New Year, which fell in January this year, which happens well under half of the time. As a result, January 2012 data was unusually weak and the February data represented a comeback.

<sup>4</sup> See "Earnings Turning?...Up". *Global Emerging Markets Strategy*, Geoffrey Dennis, March 8, 2012.

only countries for which earnings momentum has not yet rebounded are the Czech Rep, Hungary, Indonesia, Malaysia, South Africa, Turkey and Morocco. Five of these seven countries are in CEEMEA, explaining why earnings momentum for the region remains weak, and none are in Latin America.

Figure 25. MSCI GEMs 12-Month Forward Earnings Growth (%): Regions and Countries

|                      | 2010 Peak | 2012 Trough | End March   |
|----------------------|-----------|-------------|-------------|
| <b>GEMs</b>          | 29.7      | 9.0         | <b>13.7</b> |
| <b>Asia</b>          | 30.9      | 13.3        | <b>18.9</b> |
| <b>Latin America</b> | 26.1      | 8.4         | <b>12.0</b> |
| <b>EMEA</b>          | 28.9      | 1.6         | <b>3.7</b>  |
| <b>Brazil</b>        | 32.6      | 4.8         | <b>8.0</b>  |
| <b>Chile</b>         | 19.2      | 11.7        | <b>14.7</b> |
| <b>China</b>         | 21.8      | 11.0        | <b>11.2</b> |
| <b>Colombia</b>      | 49.9      | 5.6         | <b>18.7</b> |
| <b>Czech Rep</b>     | 2.2       | 2.7         | 1.9         |
| <b>Egypt</b>         | 32.4      | 32.9        | <b>33.6</b> |
| <b>Hungary</b>       | 24.2      | 8.2         | -1.4        |
| <b>India</b>         | 29.8      | 15.0        | <b>16.4</b> |
| <b>Indonesia</b>     | 21.8      | 13.3        | 11.6        |
| <b>Korea</b>         | 33.0      | 14.3        | <b>32.7</b> |
| <b>Malaysia</b>      | 21.0      | 12.1        | 11.0        |
| <b>Mexico</b>        | 29.4      | 30.6        | <b>38.6</b> |
| <b>Morocco</b>       | 10.4      | 3.2         | 0.7         |
| <b>Peru</b>          | 39.6      | 4.9         | <b>5.8</b>  |
| <b>Philippines</b>   | 24.6      | 11.1        | <b>11.6</b> |
| <b>Poland</b>        | 23.5      | -13.3       | <b>-6.1</b> |
| <b>Russia</b>        | 37.6      | -11.2       | <b>-5.1</b> |
| <b>South Africa</b>  | 38.3      | 22.0        | 20.6        |
| <b>Taiwan</b>        | 70.3      | 18.6        | <b>19.8</b> |
| <b>Thailand</b>      | 20.7      | 13.9        | <b>19.2</b> |
| <b>Turkey</b>        | 16.0      | 11.8        | 10.9        |

Source: IBES, Datastream and CIRA \* Bold font indicates rise in EPS Growth Forecasts from Trough

Interestingly, in the latest month also, earnings momentum has rebounded off its recent low for every MSCI sector (Figure 26). We can no longer argue – as we did last month – that earnings momentum is rising for Energy and Materials and for isolated other sectors (Financials, IT and Telecoms), but is still flat/down for the main domestic growth sectors. Nonetheless, it is interesting that the strongest *rebounds* in earnings momentum (not necessarily the *highest growth* rates of future earnings) are for Consumer Discretionary, Industrials (one of the best performing sectors within EM equities so far this year), Utilities and both Energy and Materials.

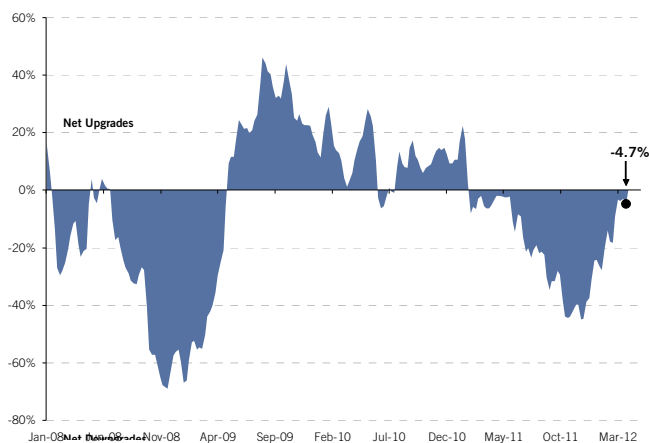
Figure 26. MSCI GEMs 12-Month Forward Earnings Growth (%): Sectors

|               | 2010 Peak   | 2012 Trough | End March   |
|---------------|-------------|-------------|-------------|
| <b>GEMs</b>   | <b>29.7</b> | <b>9.0</b>  | <b>13.7</b> |
| Energy        | 19.6        | -3.3        | 1.1         |
| Materials     | 52.7        | 5.1         | 9.8         |
| Industrials   | 48.9        | 14.4        | 25.9        |
| Consumer Disc | 20.8        | 17.5        | 36.5        |
| Cons Staples  | 16.5        | 15.4        | 15.7        |
| Health Care   | 28.6        | 18.4        | 18.6        |
| Financials    | 27.5        | 9.2         | 10.4        |
| Info Tech     | 63.5        | 31.7        | 33.5        |
| Telecoms      | 16.3        | 12.2        | 12.7        |
| Utilities     | 34.1        | 20.4        | 25.8        |

Source: IBES, Datastream and CIRA \* Bold font indicates rise in EPS Growth Forecasts from Trough

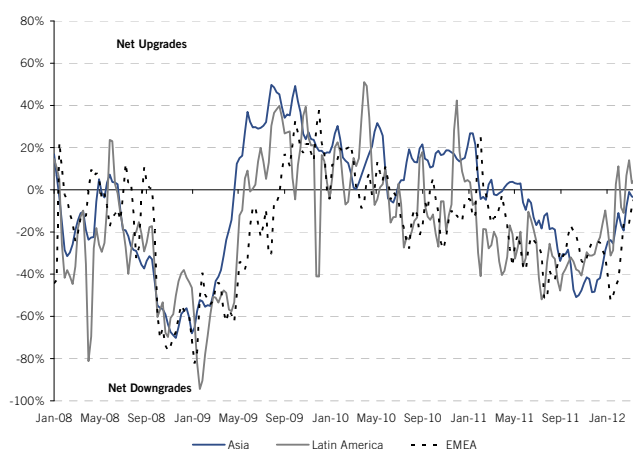
Our own metric that measures the direction of earnings forecasts – our Upgrades/Downgrades ratio for emerging markets – points to a similar conclusion, but is not yet quite as positive (Figure 27). The U/D ratio continues to rebound and is now back to -4.7% up from a recent low of -30%. So, while earnings downgrades still exceed upgrades (the ratio implies around 47/48 upgrades for every 52/53 downgrades), the incidence of the downgrades is now easing. By region, our U/D ratio for Latin America is now marginally positive, while those for Asia and CEEMEA remain slightly negative (Figure 28). The pattern is clear. The earnings picture for emerging market companies is now improving steadily and represents further support for EM equities in the second quarter and beyond.

Figure 27. MSCI GEMs: Upgrades/Downgrades Ratio



Source: MSCI, IBES, Datastream and Citi Investment Research and Analysis

Figure 28. GEMs Regions: Upgrades/Downgrades



Source: MSCI, IBES, Datastream and Citi Investment Research and Analysis

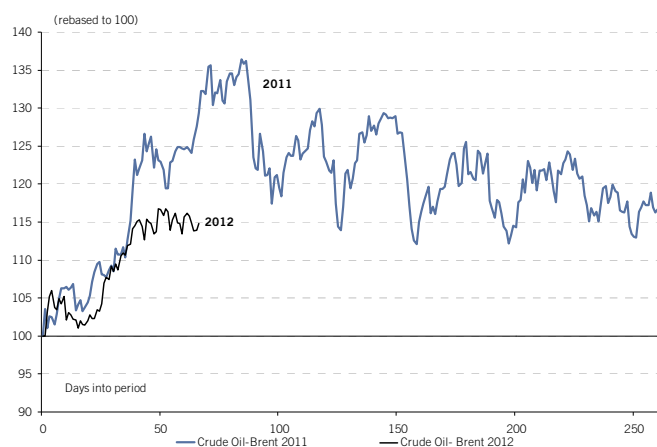
## Still Falling: Inflation and Interest Rates

One of our key arguments for EM equities in 2012 has been the declining trend of inflation, at least early in the year, which has contributed to easier monetary policy in a number of emerging market countries. At the time of writing, eight MSCI GEMs index member countries have eased monetary policy in the current cycle, including reserve requirement cuts in China and India (see Figure 32 below for the details).

However, as both ourselves and David Lubin, Citi's Chief Global Emerging Markets Economist, have written recently<sup>5</sup>, it is apparent that the scope for easier monetary policy in emerging markets may already be beginning to fade just three months into the year. This is for several reasons:

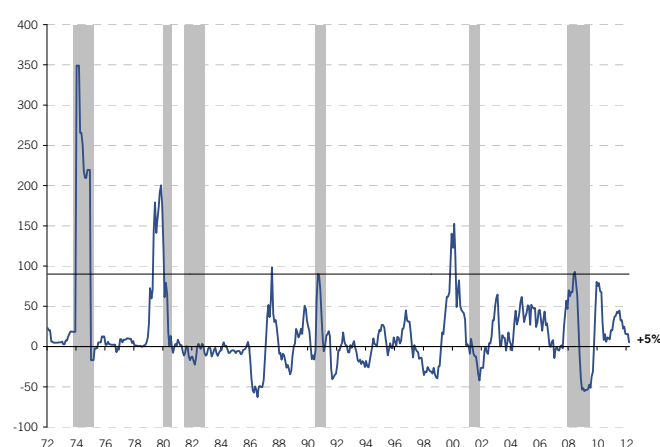
- **Higher oil prices**, which may push annual inflation in emerging markets back up sooner than expected. Although oil prices have eased slightly in the immediate past and their overlay on the path of oil prices at the start of last year is now diverging (Figure 29), Brent prices have still risen by 15% since the end of last year (\$108/barrel to \$124) and are up 5% in year-on-year terms (Figure 29);
- **Weaker currencies**, with an average decline in EM currencies versus the dollar of around 2% during March (see our Currency Proxy in Figure 47) has raised inflation fears;
- **Stronger evidence of economic recovery** in a number of EM economies, such as Korea, Thailand, Chile, Peru, Turkey and South Africa.

Figure 29. Brent Oil: (rebased to 100) Rally Comps (2011, 2012 to date)



Source: Datastream and Citi Investment Research and Analysis

Figure 30. Oil Price Inflation (Brent) and US/Global Recessions



Source: Haver, Datastream and Citi Investment Research and Analysis

The difference in inflation performance between the BRICs and other emerging markets is an important part of this story. BRIC inflation, having surged from a low of 5% in late-2010 to a peak of 7.4% in June 2011 has since collapsed impressively back to 4.7% in February. By contrast, non-BRIC inflation did not rise as much last year (to a peak of 4.0%) and so has not fallen back as much, although at 3.3%, it remains below BRIC inflation rates (Figure 31). As a result, David Lubin points out in his report that there is a dichotomy between the 'big' EMs (notably China, Brazil and India), which still have room to ease monetary policy further, and the 'small' EMs, which now have a stronger bias away from additional monetary easing. In recent weeks, more hawkish comments have come from several central banks such as those in Chile, Peru, Indonesia and Thailand.

Overall, easier monetary policy/lower rates are positive for emerging market equities (Figure 32), with the best fit between the two series being with a short lag. A new trend of lower rates in emerging markets is now in place and has been since

<sup>5</sup> See *Global Emerging Markets Strategy*, "Are The Rate Cuts Nearly Over? EM Equities and Slick Oil", Geoffrey Dennis, March 22, 2012. *Emerging Markets Macro and Strategy Outlook*, "Monetary Policy in EM: the 'big' versus the 'small'", David Lubin, March 22, 2012.

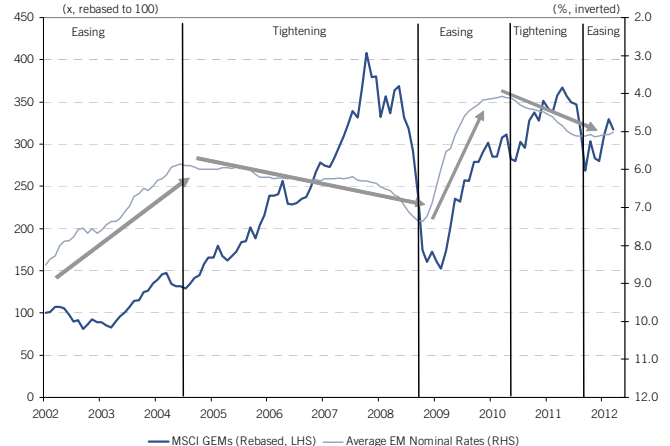
late-2011; it is not yet over and should support further gains in EM equities over the next few months.

Figure 31. EM Weighted and BRIC Inflation



Source: MSCI, Factset, Haver and Citi Investment Research and Analysis

Figure 32. EM Nominal Rates v. MSCI GEMs Index (5- Month Lag)



Source: Haver, Datastream and Citi Investment Research and Analysis

Figure 33 updates our economists' forecasts for monetary policy within the emerging markets. Amongst the BRICs or the 'big' countries, as highlighted in Citi's macro report, we look for 3-4 additional cuts in RRR in China – although we do not expect a formal interest rate cut - with further rate cuts in Brazil and Russia and a one-off 50bp rate cut in India, most likely at the next RBI meeting in April. Amongst the 'small' countries, we expect a further 50bp cut in Chile (to 4.5%) and the start of a rate-cutting cycle in Hungary and Poland, with total cuts in these countries over the course of 2012 of 25bp (to 6.75%) and 50bp (to 4%) respectively. In overall terms, with policy easing still to come in seven emerging market countries over the rest of this year, and rate hikes only in South Africa and Colombia, we believe that the overall stance of monetary policy will remain broadly accommodative and should be a positive factor for EM equities at least for the next quarter.

Figure 33. EM Monetary Policy Grid

|             | Current CB Rate | Last Move Date | Last Move Amount | End 2012 Forecast | Change to End 2012 | Current   |                    | Nominal GDP Growth 2012e |
|-------------|-----------------|----------------|------------------|-------------------|--------------------|-----------|--------------------|--------------------------|
|             |                 |                |                  |                   |                    | Inflation | Real Int Real Rate |                          |
| China       | 3.50            | Jul-11         | +25bps           | 3.50              | -                  | 3.2       | 0.3                | 11.7%                    |
| India       | 8.50            | Oct-11         | +25bps           | 8.00              | -50bps             | 7.0       | 1.6                | 14.0%                    |
| Indonesia   | 5.75            | Feb-12         | -25bps           | 5.75              | -                  | 4.0       | 1.8                | 12.0%                    |
| Korea       | 3.25            | Jun-11         | +25bps           | 3.25              | -                  | 2.6       | 0.6                | 7.0%                     |
| Malaysia    | 3.00            | May-11         | +25bps           | 3.00              | -                  | 2.2       | 0.8                | 7.5%                     |
| Philippines | 4.00            | Mar-12         | -25bps           | 4.00              | -                  | 2.7       | 1.3                | 7.5%                     |
| Taiwan      | 1.88            | Jun-11         | +12.5bps         | 1.88              | -                  | 0.3       | 1.6                | 5.4%                     |
| Thailand    | 3.00            | Jan-12         | -25bps           | 3.00              | -                  | 3.3       | -0.3               | 6.7%                     |
| Czech Rep   | 0.75            | May-10         | -25bps           | 0.75              | -                  | 3.7       | -2.9               | 2.2%                     |
| Hungary     | 7.00            | Dec-11         | +50bps           | 6.75              | -25bps             | 5.9       | 1.1                | 5.6%                     |
| Poland      | 4.50            | Jun-11         | +25bps           | 4.00              | -50bps             | 4.3       | 0.2                | 6.5%                     |
| Russia      | 8.00            | Dec-11         | -25bps           | 7.75              | -25bps             | 3.8       | 4.2                | 9.0%                     |
| S. Africa   | 5.50            | Nov-10         | -50bps           | 6.50              | +100bps            | 6.1       | -0.6               | 8.9%                     |
| Turkey      | 5.75            | Aug-11         | -50bps           | 5.75              | -                  | 10.4      | -4.7               | 12.0%                    |
| Brazil      | 9.75            | Mar-12         | -75bps           | 9.00              | -75bps             | 5.8       | 3.9                | 8.8%                     |
| Chile       | 5.00            | Jan-12         | -25bps           | 4.50              | -50bps             | 4.4       | 0.6                | 8.0%                     |
| Colombia    | 5.25            | Feb-12         | +25bps           | 6.25              | +100bps            | 3.6       | 1.7                | 8.8%                     |
| Mexico      | 4.50            | Jul-09         | -25bps           | 4.50              | -                  | 3.9       | 0.6                | 7.4%                     |
| Peru        | 4.25            | May-11         | +25bps           | 4.25              | -                  | 4.2       | 0.0                | 9.0%                     |

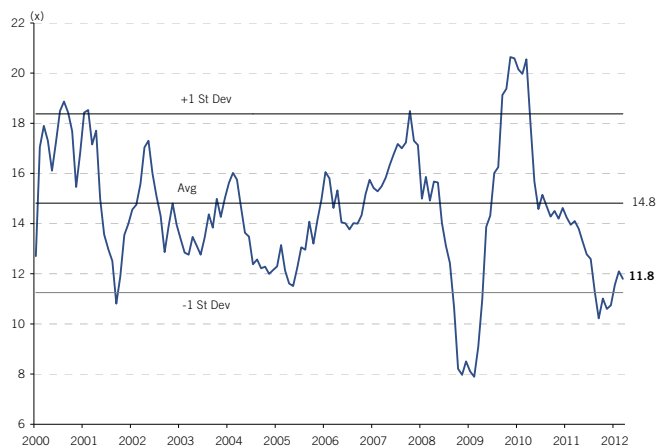
Source: Bloomberg and Citi Investment Research and Analysis

## Valuations – Higher, But Still Attractive

The strong first quarter rally in EM equities has lifted valuations compared to three and six months ago, but still leaves the asset class looking attractive. The de-rating over the first three quarters of 2011 was so savage (around 30%) that the rally over the subsequent six months (to the present) has only eroded part of the valuation case for EM equities. MSCI GEMs ended Q1 at 11.8x trailing earnings (Figure 34), up from 10.7x at end-2011, but still 20% (and just under one standard deviation) below its long-term average of 14.8x. EM equities are still discounting an EPS decline of 18% from current reported levels, in addition to the fall of 4% already seen since the recent peak in August; with (forward) earnings momentum beginning to rebound (as discussed above), this sort of negative ‘assumption’ appears wholly unrealistic. At current levels, even after the re-rating this quarter, valuations on EM equities are still close to the lows typically seen in the last full equity cycle in 2002-7.

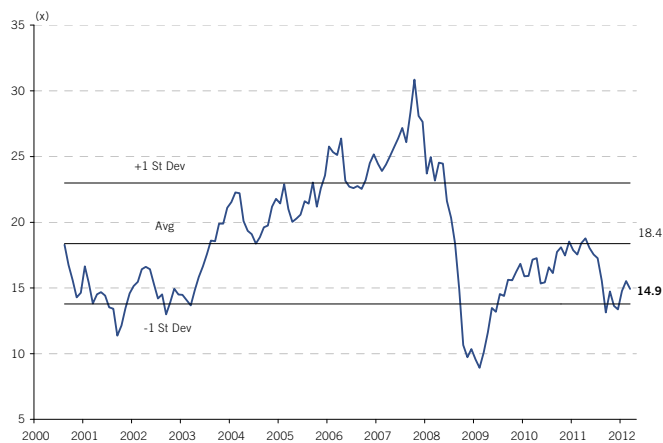
We introduced a five-year Cyclically-Adjusted P.E ratio for the emerging markets in our early-March report on earnings momentum. Based on the latest data, this shows that EM equities now trade on five-year trend earnings at 14.9x, a much higher multiple than on reported earnings (Figure 35). However, this still leaves this five-year CAPE at an attractive 18% discount (or just under one standard deviation) to its own long-term historical average of 18.4x.

Figure 34. MSCI GEMs Trailing P/E



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 35. MSCI GEMs 5-Year Cyclically-Adjusted P/E (CAPE)

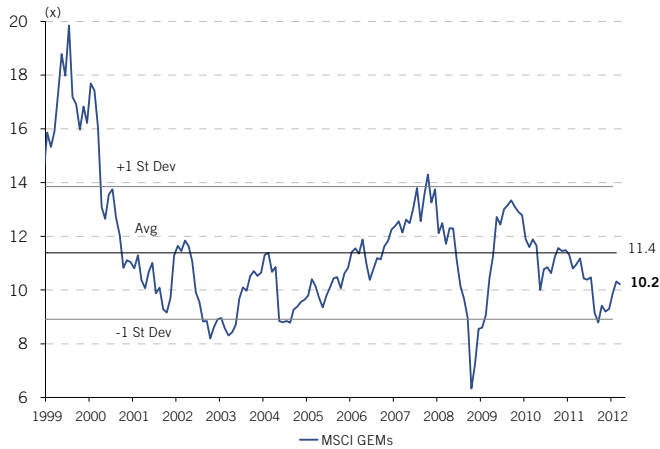


Source: MSCI, FactSet and Citi Investment Research and Analysis

The same broad pattern is clear from our standard valuation grid (Figures 36-39). Considering the charts of the first three metrics, which also include long-term historical averages, the discounts of each metric to those long-term averages are currently 12% for the P/BV ratio (1.72x v. 1.95x) and 11% for the forward P/E ratio (10.2x v. 11.4x), but considerably lower at 6% (5.79x v. 6.15x) for the prospective EV/EBITDA ratio. These discounts compare with levels of 16-24% for the same three metrics at end-Q3, just before the early-October market trough. **In short, valuations may not be ‘bargain-basement’ any more, but they generally remain a significant distance below their long-term averages.** For the earnings yield/bond yield comparison (Figure 39), the valuation case for EM equities (versus bonds) is more powerful even compared to the standard metrics. Despite the strong rally of the past six months, the EY (8.47%) remains over twice the BY (the average sovereign dollar bond for the MSCI GEMs countries) of 4.14%. EM equities remain very attractively valued against EM bonds.



Figure 36. MSCI GEMs Forward P/E (IBES)



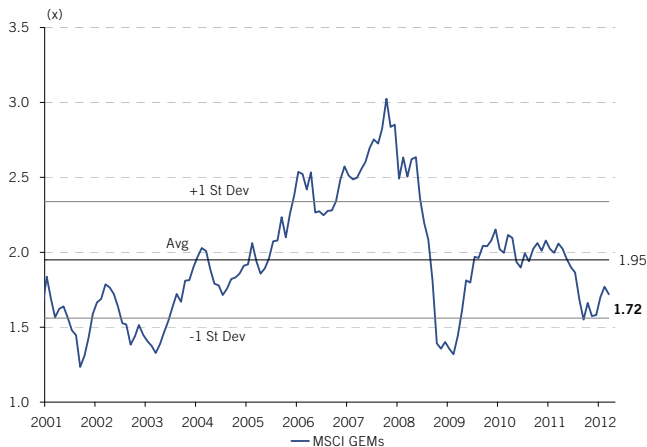
Source: IBES, Datastream and Citi Investment Research and Analysis

Figure 37. GEMs Forward EV/EBITDA (CIRA)



Source: Citi Investment Research and Analysis

Figure 38. MSCI GEMs Trailing P/B



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 39. MSCI-Weighted EM Debt Yield vs GEMs EY (MSCI)

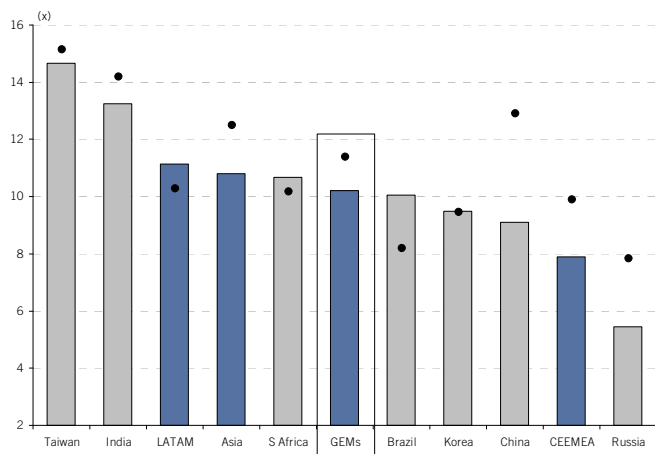


Source: MSCI, JPMorgan, Datastream and Citi Investment Research and Analysis

Finally, Figures 40-41 provide a snapshot of current forward P/E valuations. There has clearly been some movement in valuations for many parts EM relative to their historical averages. Latin America is now trading at a small premium to its historical average (11.1x v. 10.3x). Both Asia and CEEMEA are trading below their long-term historical average multiples. In term of countries, Brazil and South Africa, both Overweights in our Model Portfolio, are now trading at premiums to their history<sup>6</sup>, while Korea (a Neutral) is trading in line with its recent average (at 9.5x). The largest valuation discounts by country remain for Russia (-30%), which we have as a Neutral, China (-29%, Small Overweight) and Egypt (-24% - Neutral).

<sup>6</sup> Brazil may be trading at a 23% premium to its forward P/E average since 1999 (10.1x v. 8.2x), but it is still trading at a 15% discount to its recent average P/BV (1.58x v 1.95x). Also, if it is accepted that Brazil's fundamentals look much better – notably its cost of capital far lower – than in the early-2000s, it is notable that Brazil is still trading today exactly in line with its five-year average multiple of 10.1x.

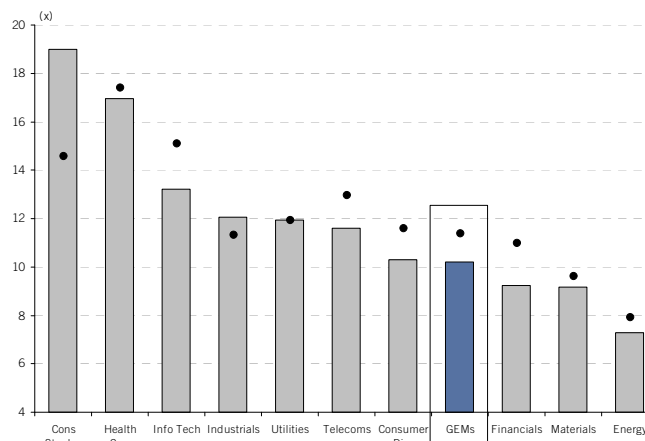
Figure 40. MSCI GEMs Forward P/E v Hist. Average: Regions, Countries



Source: IBES, Datastream and CIRA

\*dots indicate historical avg

Figure 41. MSCI GEMs Forward P/E v Hist. Average: Sectors



Source: IBES, Datastream and CIRA

\*dots indicate historical avg

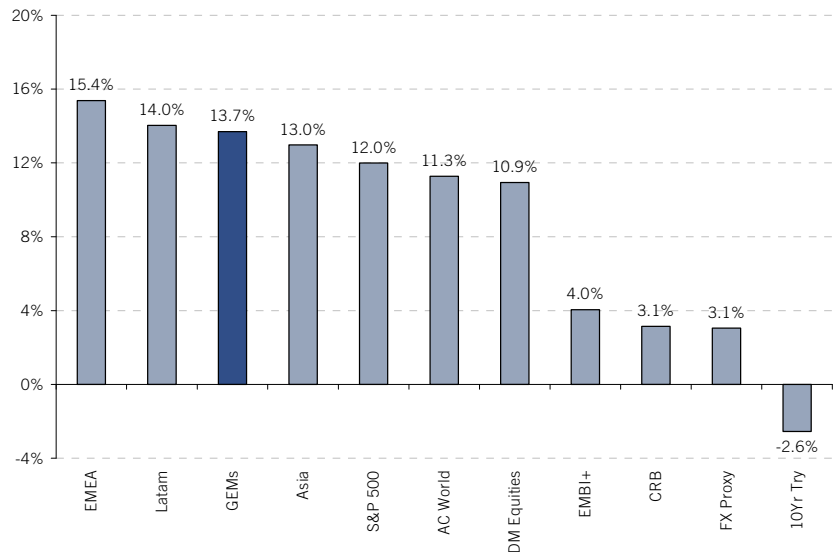
In terms of sectors, the notable shift is that the strong Q1 outperformance of Industrials has left the sector looking expensive by the end of the quarter (at 12.1x v a recent average of 11.3x), while Utilities has moved up into line with its history (at 11.9x). Consumer Staples (at 19x v. its recent average of 14.6x) remains very overpriced at a premium to its history of 30% and to GEMs as a whole of 86%. Several other sectors remain cheap to their long-term averages, notably Financials (-16% on a forward P/E, and -17% on a P/BV basis at 1.54x v. its recent average of 1.85x).

## First Quarter Recap

After a very disappointing 2011 (-20%), EM equities rebounded strongly in the first quarter of 2012. The 13.7% rise in MSCI GEMs was best first calendar quarter of the year for EM equities since 1992 (+20%) and the best single quarter since 2010 Q3 (+17.2%). There have only been twelve better quarters so far this century (making Q1 a top quartile performance). EM equities were the best-performing asset in Q1 (Figure 41). The S&P Composite was not far behind with a gain of 12%. Overall, EM equities also outperformed developed market equities (+10.9% for MSCI World), while global equities as a whole (AC World) rose by 11.3%. Non-equity asset prices fared much less well, with modest gains in EM bonds (+4%), currencies (our EM Currency Proxy rose by 3.1%) and commodity prices (the CRB index also rose by 3.1%). The only asset to suffer negative returns in Q1 was US 10-year Treasury bonds (with a total return of -2.6%), a perfect reversal of Q4 performance.

However, all of the Q1 gains in emerging markets were recorded in the first two months of 2012 (up to the interim peak, on March 2, when MSCI GEMs was up on the year by as much as 17.9%). Therefore, with March showing a loss for MSCI GEMs (-3.5%) and recording another reversal of fortune, the quarter ended with a strong tinge of disappointment for EM investors. EM equities underperformed DM equities (+1% in March), while other typical risk variables that impact EM equities also pulled back last month, including EM bonds (-0.2%), our EM currency proxy (-1.9%) and commodity prices (-1.2%). The only asset to break this mold was US Treasuries, which also recorded a negative return in March (-2.1%).

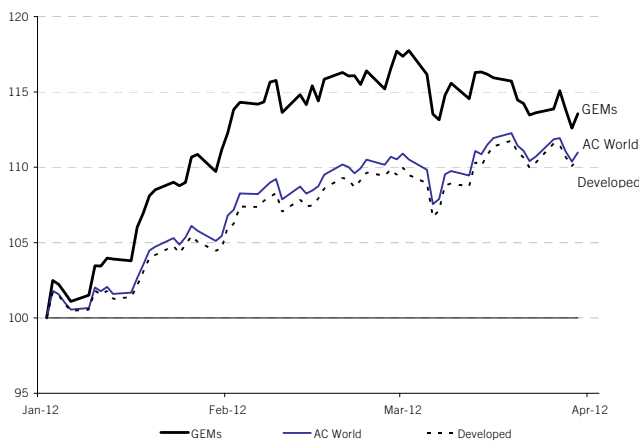
Figure 42. Asset Price Performance (Q1)



Source: Citi Investment Research and Analysis

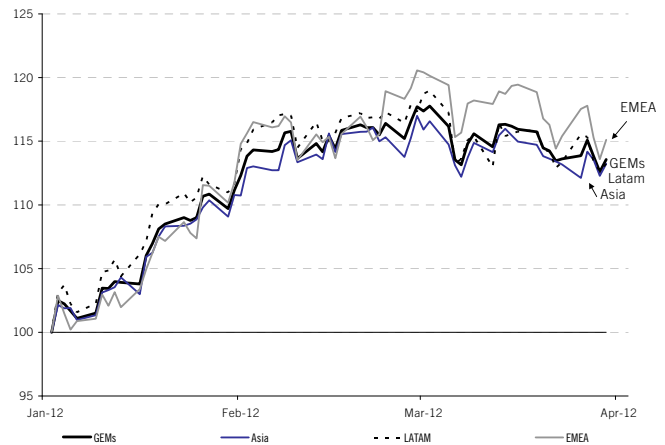
Taking the quarter as a whole, EM equities outperformed DM equities by 270bp, which was the first quarterly outperformance since the third quarter of 2010 (Figure 42); therefore, a five-quarter streak of EM underperformance – the longest since 1997-8 – has been broken. Over those five quarters to the end of 2011, EM equities (-4%) underperformed DM equities (+10.7%) by 1470bp; against this background, the 270bp of outperformance this past quarter is not exactly a sharp rebound. By the end of Q1, the EM/DM underperformance since the relative peak in early-October 2010 was just over 1610bp.

Figure 43. Global Equity Markets: MSCI AC, DM and GEMs (Q1 rebased)



Source: Citi Investment Research and Analysis

Figure 44. Emerging Markets: MSCI Indices by Region (Q1 rebased)



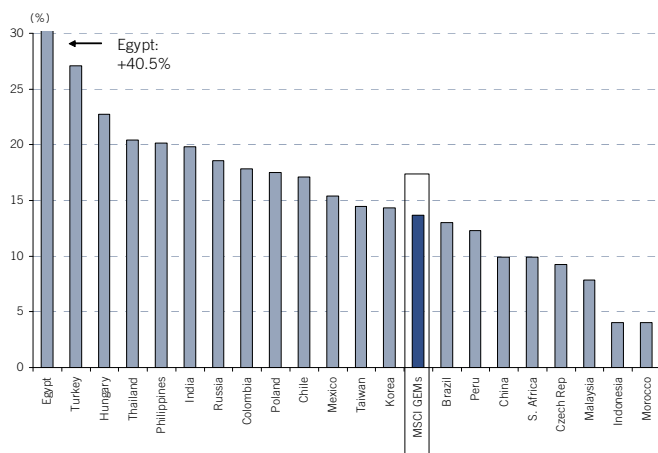
Source: Citi Investment Research and Analysis

Across the three regions, the variation in performance in Q1 was very small, as it has been now for several quarters (Figure 43). The best performing region in Q1 was EMEA (+15.4%), followed by Latin America (+14%), with Asia (+13%) bringing up the rear. There was not much alpha for investors by picking their regions

successfully. In fact, the quarterly performance difference between the strongest and the weakest regions (240bp) was the second smallest since the introduction of the MSCI CEEMEA index at the end of 1996<sup>7</sup>. Over the subsequent fifteen years the average quarterly performance variation between the best and the worst regions was as much as 1060bp.

Relative performance by country in Q1 (Figure 45) showed considerable variation. However, all 21 markets rose in the quarter. The theme at the start of 2012 was a significant country rotation, with the losers of last year outperforming at the beginning of this year; that contrarian theme became less clear-cut as the quarter proceeded, especially when markets pulled back in March. Also, a notable feature early in the quarter was outperformance by the BRIC markets (Figure 46). However, this theme has also faded – quite dramatically. In March itself, the BRICs were four of the five worst performing EMs with losses of 5-7% (the other poor performer was Hungary); by the end of March, only India (+19.8%) and Russia (+18.5%) were still outperforming GEMs (+13.7%) for the quarter.

Figure 45. MSCI GEMs Performance: Countries (Q1)



Source: Citi Investment Research and Analysis

Figure 46. MSCI BRIC Index v GEMs (Relative), 2011-12



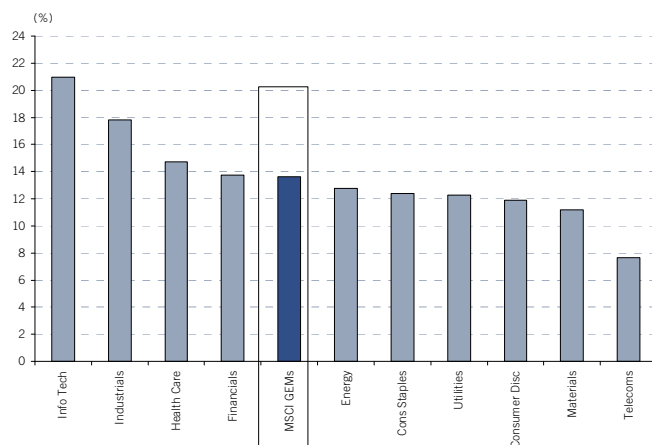
Source: Citi Investment Research and Analysis

For Q1 as a whole, the three best performers were smaller CEEMEA markets, all of which had underperformed badly in 2011: Egypt (+40.5%), Turkey (+27.1%) and Hungary (+22.8%); these were followed by Thailand (+20.4%) and the Philippines (+20.2%), both of which had outperformed last year. The five worst performing markets in Q1 were Morocco (+4%), Indonesia (+4.1% - the only EM to rise in 2011), Malaysia (+7.9%), the Czech Republic (+9.3%) and South Africa (+9.9%). The other two BRICs – China (+9.9%) and Brazil (+12.7%) – also underperformed in Q1. Taiwan (+14.5%) and Korea (+14.4%) outperformed.

All sectors rose in Q1 (Figure 47), but relative sector performances reflected a very unusual beta rally; both leading global cyclical sectors underperformed the GEMs benchmark. The best performers, by some distance, are both domestic cyclical sectors - IT (+21%) and Industrials (+17.8%) - followed some way behind by the usually low-beta Health Care sector (+14.7%) and Financials (+13.7%). The four worst-performing sectors were Telecoms (+7.6%), the usually high-beta Materials sector (+11.2%), Consumer Discretionary (+11.9%) and Consumer Staples (+12.4%). Energy also underperformed (+12.8%).

<sup>7</sup> In Q2 2003, the gap between the best and worst regional performance was 230bp.

Figure 47. MSCI GEMs Sector Performance (Q1)



Source: Citi Investment Research and Analysis

Figure 48. EM Currency Proxy (QTD)



Source: Citi Investment Research and Analysis

A final way to show the topsy-turvy nature of Q1 is through our Currency Proxy. This reached a peak in late-February with an impressive gain of 5.1%; that is, the average gain on the quarter by the currencies of the equity markets in MSCI GEMs was over 5% against the dollar at that time. As markets pulled back in March, the currency proxy fell by 2%, for a total gain of only 3.1% for Q1 as a whole.

## Equity Allocation: What the Model Says

Our GEM asset allocation models rank, according to ten factors, the attractiveness of the three EM regions, countries and sectors that are included in the MSCI GEMs index. These factors may be grouped into five sub-groups:

- earnings/ROE;
- valuation/momentum;
- macro (real GDP growth and interest rates);
- beta; and
- a qualitative input to allow for such non-model factors as elections, political uncertainty, major global events (e.g. Olympics, World Cup), prospects for structural reform and proximity to areas of economic and geopolitical uncertainty (e.g. the EU debt crisis, the Middle-East).

For the upcoming quarter, when we again expect EM equity markets to do well, we include the beta factor (above) as a positive (i.e. high beta scores by region, country and sector are a positive contribution and low beta scores are a negative contribution). The current model rankings by region, country and sector are set out in Figure 49 at the end of this section and a full description of each of the ten factors is included in an appendix at the end of this report.

## Regional Rankings – Top Pick: Asia

We retain **Asia** as our favored region in emerging markets and our sole Overweight within our GEMs portfolio. In the first quarter, Asia (+13%) did underperform GEMs (+13.7%), but very marginally. However, there was so little variation of regional performance in Q1 that a shift in preferences cannot be based on Q1 performance

alone. With the global growth downgrade process now apparently over and earnings momentum beginning to turn upwards again, Asia's growth attributes – the region scores well in our model on Earnings Growth, ROE and GDP growth – should be a positive factor this quarter. Although the concern over the slowdown in the Chinese economy and disappointment over the slow pace of monetary easing could support a less bullish view, our ongoing Overweight in Asia is premised on the view that investors will feel better about China in three months' time than they do today. Asia also scores well in terms of our interest rate variable given low real rates and accommodating monetary policies across the region.

Asia scores less well on valuations versus other regions. However, Asia still trades at a 13% discount to its own history on 10.8x forward earnings, compared to a long-term average of 12.5x and at a smaller discount of 3% on a P/BV basis (1.86x v. 1.92x). With this in mind, while our Asian strategist, Markus Rosgen, is concerned over the slow pace of balance sheet expansion in Asian banks and some signs of a rolling-over of Citi's Economic Surprises Index for Asia, he sees plenty of reasons (including valuations, as well as sentiment and earnings revisions) to remain positive<sup>8</sup>. The main risks to our bullish view on Asia are: i) a more severe slowdown in China; ii) a strong rally in the dollar; iii) further contraction of central bank balance sheets; and iv) a renewed downturn in earnings momentum.

We remain Neutral in **Latin America**, where the growth and valuation outlook is less favorable, but where other factors are supportive. One key positive is that interest rates have been falling in the region and there are further rate cuts to come in Brazil and Chile. The latest central bank policy meeting in Mexico raised the tantalizing prospect that interest rates could be cut there also, after many months of little speculation over a policy move. Latin America stands in the middle ground in terms of growth variables, although much will depend on whether recent improvements in the US economy, which have spilled over to Mexican growth and to a stronger stock market, continue. In line with our comments on Asia, we assume that the Chinese growth story will look more secure again in three months' time than it does today and this should benefit Brazil. Latin America also has limited exposure to the weakness of the European economies. Our Latin American strategist, Jason Press, has the most bullish view of any of our regional strategists over the rest of 2012.

Latin America does much less well on earnings momentum, ROEs and valuations. In terms of the latter, the region trades at a hefty premium on a forward P/E basis at 11.1x (the highest for any EM region) v. an historical average of 10.3x, although on a P/BV ratio basis, at 1.82x v 2.05x, the region looks more attractive. The main negative risks to our Neutral on Latin America are: i) a collapse in commodity prices; ii) further weakness in China; and iii) a renewed slowdown in US growth. Positive risks for Latin American markets center around: i) much stronger growth in the US (so boosting Mexico) and China (boosting Brazil); ii) a weak dollar; iii) strong commodity prices; and iv) a decisive victory for the PRI in the July 1 presidential elections in Mexico, which could usher in some much-needed structural reforms.

We remain Underweight in **CEEMEA**, where a very attractive valuation picture is offset, in our view, by weak growth and the region's overall high exposure to the recession in the Euro Area. The region scores poorly on both earnings and GDP growth. All the GEMs with the biggest exposure to the Euro Area – which is not expected to emerge from recession until early-2013 – are in CEEMEA, including all three Central European economies, Russia and also Turkey. The investment case

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<sup>8</sup> *Pan Asia Strategy*, "Outlook More Finely Balanced Than in October or January", Markus Rosgen, April 2, 2012.

for Russia has also been damaged recently by the popular protests before the presidential elections in early-March and, latterly, by taxation policy towards companies in the extractive sectors. Given this backdrop, our CEEMEA strategist, Andrew Howell, is the least bullish of any of our EM regional strategists.

The case for CEEMEA equities in Q2 is not enhanced either by the big gains (+15.4%) in Q1, especially for the high beta markets in the region (Turkey, Hungary, Poland and Russia). They all shot out of the gate at the start of 2012 and all outperformed within GEMs. Another beta rally of this scale seems unlikely in Q2 and we have reacted to this by upgrading South Africa back to Overweight. The valuation case for CEEMEA is, however, still strong with the region trading (7.9x forward earnings) at a deep discount (20%) to its own historical average multiple (9.9x) and even more so (a 23% discount) versus GEMs as a whole (10.2x). The risks to our Underweight view on CEEMEA are: i) a repeat of the strong beta rally of Q1; ii) a weak dollar; iii) rising commodity prices; and iv) a turn in the Euro Area economies.

### Country Rankings – Top Picks: Korea, Peru, South Africa, China, Brazil

On a country basis, our Overweights at the start of Q2 are Korea, Peru, South Africa, Brazil and China. The main changes are to upgrade South Africa back to Overweight from Neutral and to cut the size of our Overweights in Brazil and China. We are Neutral in Taiwan, Thailand, Chile, Egypt and Russia, with the main changes being to upgrade two small markets, Egypt and Chile to Neutral. We are Underweight in the other markets within GEMs. In terms of our Overweights:

- Our upgrade of **South Africa** reflects the view that, although we are positive for EM equities for Q2, a repeat of the strong beta rally of early-2012 is unlikely. South Africa (10.7x forward) trades at a small premium to its own history and to GEMs, but at 2.31x BV is 5% cheap to its own history on that metric. Earnings growth in South Africa for 2012 of 20% is the highest amongst GEMs and the market remains a good entry point for access to Frontier Africa;
- We continue to favor **Korea**, as one of our main Overweights. Valuations in Korea have moved up (9.5x forward and is in-line with the market's historical average). However, the market remains under-owned and has exposure to the strong Asian economies, including to growth in Korea itself. The parliamentary elections on April 11 are much less important for the market than are the presidential elections next December<sup>9</sup>. The opposition DUP could win the upcoming parliamentary elections, although their pledge to seek to re-negotiate the Free-Trade Agreement with the US is unlikely to be fulfilled due to widespread opposition in the country;
- After underperforming slightly in Q1, we reiterate our Overweight in **Peru**. The market does well in our model on ROEs, Earnings Revisions, GDP growth and interest rates. However, growth remains robust enough that interest rate cuts may not be needed. Political risk has diminished as President Humala has pursued business-friendly policies, Valuations have risen (11.7x forward) to just above historical averages. We prefer banks in Peru to mining.
- We have reduced the size of our Overweights in **Brazil** and **China**, both of which underperformed in Q1. The near-term fate of these markets appears to be tied

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<sup>9</sup> See our recent report on the outlook for the many emerging markets elections or leadership changes this year - *Global Emerging Markets Strategy*, "The Emerging Markets Vote", Geoffrey Dennis et al, February 28, 2012.

together given that slowing growth in China, combined with market frustration over the slow pace of monetary easing, have exacerbated fears that, at worst, a hard landing could occur. This has been a disappointment for the Chinese market and also for Brazilian investors, where the consequent poor performance by the large Materials sector (21% of MSCI Brazil) has dragged down the whole market. Investors should stay bullish, however. The annual growth rates of the key Chinese macro variables should bottom out this quarter and there should be further significant monetary easing. This should support, in time, higher equity prices in both China (where valuations, at 9.1x forward, versus GEMs at 10.2x and China's own recent average of 12.9x, are cheap) and Brazil (where valuations at 10.1x forward are richer, but are still exactly in line with their five-year average). This is not the time to sell China or Brazil, in our view.

### Sector Rankings – Top Picks: Cons Discretionary, Financials, Energy

On a sector basis, our Overweights at the start of Q2 are Financials, Consumer Discretionary and Energy. We are Neutral in IT, Industrials and Energy and Underweight in Telecoms, Utilities, Health Care and Consumer Staples. This sector allocation implies that we are not chasing domestic cyclical outperformance in Q2, following the impressive outperformance of IT and Industrials in Q1. We prefer a balanced approach to cyclicals, with some domestic exposure (Financials and Consumer Discretionary) alongside some global cyclical exposure (Energy). There are no changes to our sector allocation since our March 22 report when we upgraded Energy to Overweight (from Neutral) and cut Materials to Neutral. In terms of our Overweights:

- Our top sector pick remains **Financials**, which were a marginal outperformer in Q1 (+13.7% v. 13.65% for GEMs). Our thesis is unchanged, with our bullish view being based on the gradual healing of the global banking system (including in Europe), which will benefit EM banks, the pick-up in global growth, which should support increased loan growth in emerging markets, and still-attractive valuations at 1.54x BV for EM banks as a whole (versus a long-term average of 1.85x) and 9.2x forward earnings (v. 11.0x). We have banks in our GEMs Model Portfolio from most major emerging markets, notably all four BRICS, Korea, Taiwan, Malaysia, Peru, Poland and South Africa;
- We retain our Overweight in **Consumer Discretionary** which underperformed in Q1 (+11.9%). The sector is our favored play on non-financial domestic growth, given our preference for higher-beta sector plays and the very high valuations attached to Consumer Staples. As argued in this report, the interest rate cycle in EM is not over yet and this sector is a good way to play this theme. The sector scores well in our model on earnings momentum and ROEs. Valuations are mixed with the sector trading at a discount in terms of forward P/Es (10.3x.v a recent average of 11.6x), but at a premium on P/BV (2.34x v. 2.03x). Within the sector, we have Consumer Discretionary stocks in our Model Portfolio in Brazil, China, India and Turkey;
- We moved to an Overweight in **Energy** in late-March, as a switch out of Materials (cut to Neutral) and retain it here. Citi's commodity analysts remain bullish on oil prices for 2012, with an average Brent oil price forecast of \$125/barrel<sup>10</sup>; moving to an Overweight in Energy also provides some defense against one of the major tail risks of the upcoming quarter – an Israeli attack on Iran which, if it were to occur, would be likely to push the oil price sharply higher. Our switch out of **Materials** has nothing to do with any near-term concern over the global

<sup>10</sup> The long-term view is that oil prices drop to \$85/barrel by 2020. See *Citi GPS* "Energy 2020: North America, The New Middle East", Ed Morse et al, March 20, 2012.



economy. It is more to do with Citi's developing view that, in the current global economic cycle, although metals prices may stay firm, the earnings power of mining companies will decline due to rising labor costs, higher oil prices, resource nationalism and higher taxes on extractive industries, following the theme of recent events in Russia<sup>11</sup>. We have Energy stocks in our Model Portfolio from Brazil, China, Russia and South Africa. We have Materials stocks in our Model Portfolio from Brazil, South Africa (both mining) and Thailand (chemicals).

### Model Portfolio of Stocks

Our model portfolio for each stock can be found in Figures 2-4. Since inception on May 2010, the portfolio is up 19.3% and has outperformed the MSCI GEMs and Thomson Reuters EM indices by 344bp and 1,608bp respectively. Since our last EM Quarterly (published on January 10, 2012), the portfolio is up 4.5%.

We make several changes to our Model Portfolio with this report:

- In **South Africa**, we add Shoprite Holdings (Consumer Staples) to our Model Portfolio, as a play on domestic demand, and given our upgrade of South Africa to Overweight;
- In **Egypt**, we add Orascom Construction (Industrials), as a play on the high-growth construction markets in the MENA region, and given our upgrade of Egypt to Neutral;
- In **China**, we drop China Mobile (Telecoms) as we are reducing the size of our country overweight vs the MSCI GEMs weight in China;
- In **Russia**, we add SurgutNG's preferred shares to replace Lukoil (within the Energy sector). SurgutNG's preferred shares are trading at attractive valuations. The preferred shares should trade at a smaller discount to the common shares given the establishment of a central depository in Russia, enabling a wider range of funds to buy the securities;
- In **Mexico**, we add America Movil (Telecoms), our favored name in the Latin American telecom industry, and remove Grupo Televisa (Consumer Discretionary) given its strong recent performance;
- In **Korea**, we switch out of Samsung Engineering (Industrials), on strong recent strong performance, and add Daelim Industrial (Industrials) which should benefit from strong overseas demand and improving housing P&L, and is our favored name in the Korea Engineering & Construction sector.

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<sup>11</sup> *Russian Equity Strategy*, "Taxing the Golden Goose: Switch Back to Russian Domestics", Kingsmill Bond, March 20, 2012.

## Appendix – GEMs Factor Allocation Model Ranking

Figure 49. GEMs Allocation Model Ranking

|                       | Earnings Growth + Mom |              |           | Val + Price Mom |                  |             | Macro       |           | Other        | Total<br>100% |                   |
|-----------------------|-----------------------|--------------|-----------|-----------------|------------------|-------------|-------------|-----------|--------------|---------------|-------------------|
|                       | Growth<br>15%         | E Mom<br>10% | RoE<br>5% | ERI<br>5%       | Valuation<br>30% | P Mom<br>5% | Beta<br>10% | GDP<br>5% | Rates<br>10% |               | Qualitative<br>5% |
| <b>Emerging World</b> |                       |              |           |                 |                  |             |             |           |              |               |                   |
| <b>Regions</b>        |                       |              |           |                 |                  |             |             |           |              |               |                   |
| Em Asia               | 1                     | 2            | 1         | 3               | 2                | 1           | 3           | 1         | 1            | 1             | 2                 |
| Lat Am                | 2                     | 3            | 3         | 1               | 2                | 2           | 2           | 2         | 1            | 2             | 3                 |
| CEEMEA                | 3                     | 1            | 2         | 2               | 1                | 3           | 1           | 3         | 1            | 3             | 1                 |
| <b>Countries</b>      |                       |              |           |                 |                  |             |             |           |              |               |                   |
| Brazil                | 16                    | 20           | 18        | 12              | 4                | 8           | 6           | 9         | 14           | 21            | 12                |
| Chile                 | 12                    | 10           | 2         | 16              | 17               | 12          | 13          | 8         | 6            | 1             | 13                |
| China                 | 14                    | 19           | 9         | 17              | 2                | 6           | 7           | 1         | 10           | 11            | 3                 |
| Colombia              | 2                     | 1            | 7         | 4               | 19               | 14          | 17          | 6         | 21           | 1             | 11                |
| Czech Republic        | 20                    | 16           | 8         | 20              | 5                | 4           | 12          | 21        | 3            | 21            | 17                |
| Egypt                 | 1                     | 3            | 20        | 5               | 6                | 21          | 20          | 15        | 1            | 21            | 7                 |
| Hungary               | 18                    | 18           | 21        | 9               | 11               | 19          | 1           | 20        | 11           | 21            | 20                |
| India                 | 6                     | 15           | 17        | 11              | 15               | 16          | 11          | 2         | 9            | 21            | 16                |
| Indonesia             | 8                     | 8            | 13        | 9               | 17               | 2           | 9           | 3         | 18           | 11            | 8                 |
| Korea                 | 7                     | 11           | 16        | 18              | 15               | 9           | 3           | 13        | 8            | 1             | 6                 |
| Malaysia              | 15                    | 6            | 11        | 2               | 13               | 3           | 19          | 7         | 13           | 1             | 9                 |
| Mexico                | 4                     | 2            | 19        | 8               | 21               | 11          | 10          | 17        | 11           | 1             | 15                |
| Morocco               | 17                    | 21           | 6         | 15              | 13               | 1           | 21          | 11        | 19           | 21            | 21                |
| Peru                  | 11                    | 9            | 4         | 3               | 10               | 7           | 16          | 4         | 6            | 11            | 2                 |
| Philippines           | 9                     | 13           | 1         | 7               | 20               | 17          | 18          | 12        | 15           | 11            | 19                |
| Poland                | 21                    | 12           | 5         | 21              | 1                | 13          | 2           | 19        | 4            | 11            | 5                 |
| Russia                | 19                    | 5            | 12        | 19              | 2                | 15          | 4           | 14        | 19           | 21            | 14                |
| South Africa          | 3                     | 14           | 15        | 6               | 8                | 5           | 5           | 15        | 16           | 11            | 4                 |
| Taiwan                | 10                    | 17           | 10        | 13              | 12               | 10          | 15          | 10        | 17           | 11            | 18                |
| Thailand              | 5                     | 7            | 3         | 1               | 9                | 18          | 14          | 5         | 4            | 11            | 1                 |
| Turkey                | 13                    | 4            | 14        | 14              | 7                | 20          | 8           | 18        | 2            | 21            | 10                |
| <b>Sectors</b>        |                       |              |           |                 |                  |             |             |           |              |               |                   |
| Energy                | 10                    | 6            | 10        | 9               | 2                | 6           | 2           | 2         | 6            | 10            | 7                 |
| Materials             | 7                     | 9            | 5         | 10              | 3                | 2           | 1           | 10        | 6            | 6             | 3                 |
| Industrials           | 5                     | 7            | 2         | 7               | 8                | 9           | 3           | 5         | 2            | 1             | 6                 |
| Consumer Disc.        | 1                     | 2            | 1         | 4               | 6                | 3           | 4           | 6         | 6            | 2             | 1                 |
| Consumer Staples      | 4                     | 3            | 6         | 2               | 10               | 5           | 8           | 8         | 2            | 5             | 9                 |
| Health Care           | 2                     | 5            | 8         | 3               | 9                | 8           | 10          | 9         | 1            | 7             | 10                |
| Financials            | 8                     | 10           | 3         | 5               | 1                | 7           | 5           | 1         | 2            | 8             | 2                 |
| IT                    | 3                     | 1            | 9         | 1               | 5                | 10          | 6           | 4         | 6            | 3             | 4                 |
| Telecoms              | 9                     | 4            | 7         | 8               | 4                | 1           | 9           | 3         | 10           | 4             | 5                 |
| Utilities             | 5                     | 8            | 4         | 6               | 6                | 4           | 7           | 7         | 2            | 9             | 8                 |

Source: Citi Investment Research and Analysis

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# Regions

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## Asia – Overweight

Figure 50. Regional Breakdown

|                        |              |
|------------------------|--------------|
| <b>Weight in GEMs</b>  | <b>58.4%</b> |
| FF Mkt Cap (US\$, mn)  | 2,184.8      |
| <b>Country Weights</b> |              |
| China                  | 29.5%        |
| Korea                  | 25.8%        |
| Taiwan                 | 18.7%        |
| India                  | 10.9%        |
| Malaysia               | 5.7%         |
| Indonesia              | 4.6%         |
| Thailand               | 3.5%         |
| Philippines            | 1.3%         |
| <b>Sector Weights</b>  |              |
| Financials             | 24.3%        |
| Info Tech              | 23.0%        |
| Energy                 | 9.4%         |
| Materials              | 9.3%         |
| Industrials            | 8.6%         |
| Consumer Disc          | 9.2%         |
| Telecom                | 6.8%         |
| Cons Staples           | 5.8%         |
| Utilities              | 2.6%         |
| Health Care            | 1.0%         |

Source: MSCI, FactSet and CIRA

We retain Asia as our favored region and sole Overweight in GEMs. With the global growth downgrade process now apparently over and earnings momentum turning upwards again, Asia's growth attributes should be a positive in Q2. Despite concern over the Chinese slowdown and disappointment over the slow pace of monetary easing, our ongoing Overweight in Asia assumes that investors will feel better about China in three months' time than they do today. Asia also scores well on our interest rate variable given low real rates across the region. It scores less well on valuations, although the region (at 10.8x forward earnings) still trades at a 13% discount to its long-term average of 12.5x and at a smaller discount of 3% on a P/BV basis (1.86x v. 1.92x). With this in mind, while our Asian strategist, Markus Rosgen, is concerned over the slow pace of balance sheet expansion in Asian banks and some signs of a rolling-over of Citi's Economic Surprises Index for Asia, he sees plenty of reasons to remain positive. The main risks to our bullish view are: i) a more severe slowdown in China; ii) a strong dollar rally; iii) further contraction of central bank balance sheets; and iv) a renewed downturn in earnings momentum.

Figure 51. Key Metrics

|             | Performance |       |       |                |       |       | Valuation   |              |       |           |
|-------------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|             | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|             | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs        | 13.6%       | -3.5% | 13.6% | 10.3%          | -1.6% | 10.3% | 10.2        | 1.72         | 14.5% | 2.7%      |
| Asia        | 13.0%       | -3.2% | 13.0% | 11.2%          | -2.1% | 11.2% | 10.8        | 1.80         | 14.1% | 2.5%      |
| Energy      | 11.2%       | -7.9% | 11.2% | 10.1%          | -6.9% | 10.1% | 9.0         | 1.88         | 18.9% | 3.0%      |
| Materials   | 11.4%       | -7.9% | 11.4% | 9.4%           | -6.8% | 9.4%  | 10.1        | 1.50         | 13.7% | 3.2%      |
| Industrials | 15.7%       | -5.1% | 15.7% | 13.8%          | -4.0% | 13.8% | 11.3        | 1.46         | 11.8% | 2.0%      |
| Cons Disc   | 9.1%        | -0.8% | 9.1%  | 7.4%           | 0.6%  | 7.4%  | 9.2         | 2.16         | 18.1% | 1.5%      |
| Staples     | 7.4%        | 2.0%  | 7.4%  | 5.7%           | 3.4%  | 5.7%  | 18.3        | 3.73         | 16.9% | 1.9%      |
| Health Care | 12.5%       | 1.4%  | 12.5% | 9.7%           | 3.9%  | 9.7%  | 18.7        | 3.34         | 12.8% | 0.8%      |
| Financials  | 12.1%       | -5.9% | 12.1% | 10.6%          | -4.9% | 10.6% | 8.7         | 1.45         | 14.5% | 2.9%      |
| Info Tech   | 20.9%       | 1.2%  | 20.9% | 18.2%          | 2.2%  | 18.2% | 13.3        | 2.30         | 12.9% | 2.2%      |
| Telecom     | 5.1%        | -0.1% | 5.1%  | 4.1%           | 0.6%  | 4.1%  | 12.8        | 2.06         | 14.5% | 3.8%      |
| Utilities   | 10.3%       | -3.0% | 10.3% | 8.1%           | -1.3% | 8.1%  | 13.6        | 1.14         | 4.1%  | 2.0%      |

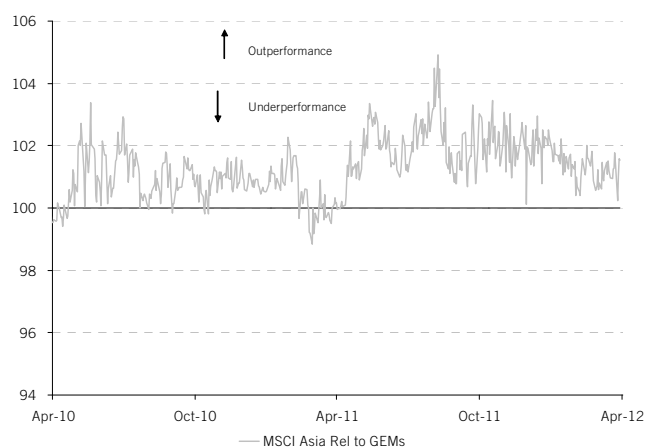
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 52. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

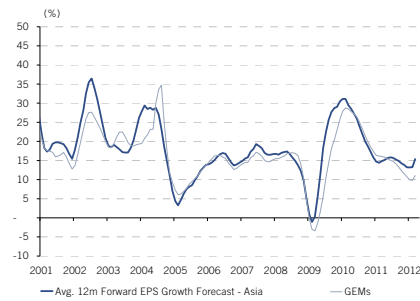
Figure 53. Performance Relative to GEMs



Source: MSCI, Datastream and Citi Investment Research and Analysis

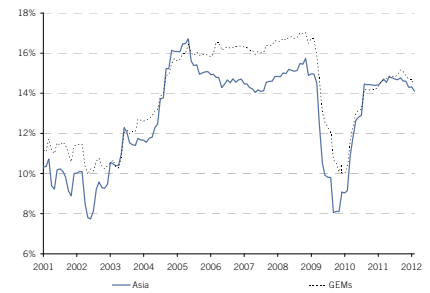
Fundamentals and Valuation

Figure 54. Forward 12m EPS Growth (IBES)



Source: MSCI, IBES, Datastream and CIRA

Figure 55. Trailing ROE



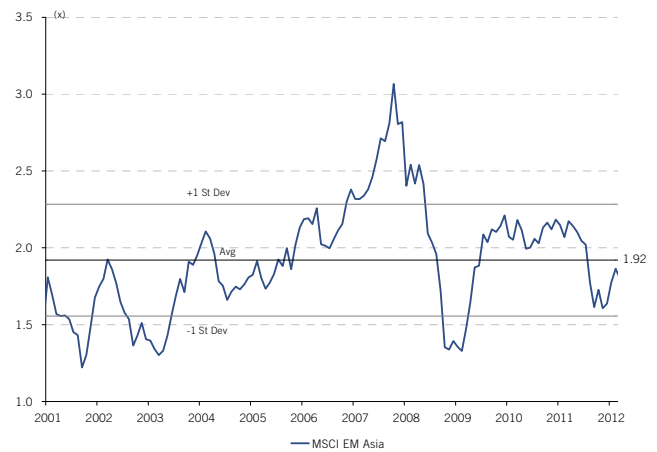
Source: MSCI, Datastream and CIRA

Figure 56. Forward 12m P/E (IBES)



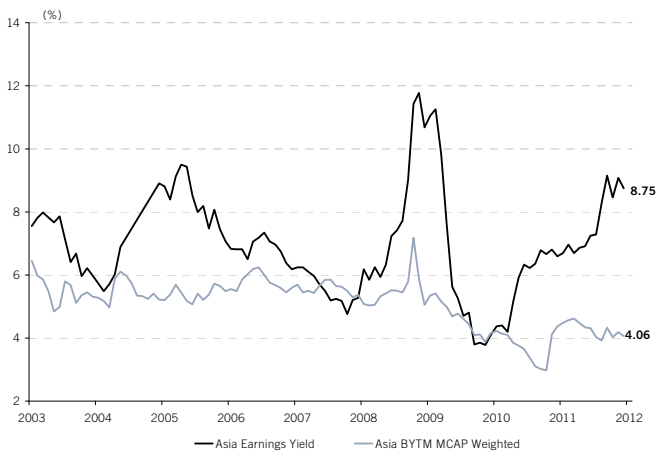
Source: MSCI, IBES, Datastream and CIRA

Figure 57. MSCI P/B



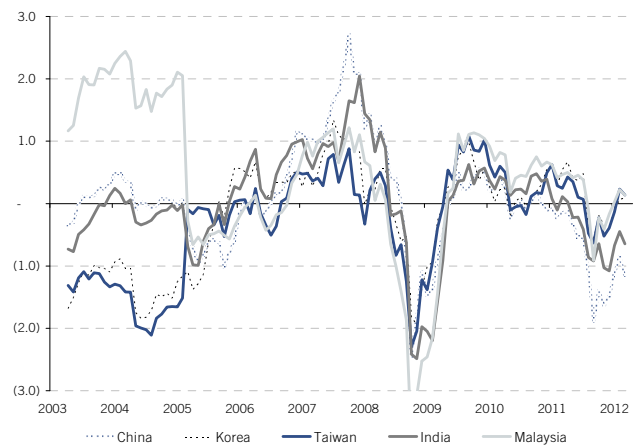
Source: MSCI, IBES, Datastream and CIRA

Figure 58. MSCI Weighted Asia Debt Yield vs Earnings Yields



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 59. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.  
Source: MSCI, IBES, Datastream and CIRA

## Latin America – Neutral

Figure 60. Regional Breakdown

|                        |              |
|------------------------|--------------|
| <b>Weight in GEMs</b>  | <b>23.3%</b> |
| FF Mkt Cap (US\$, mn)  | 870.9        |
| <b>Country Weights</b> |              |
| Brazil                 | 64.7%        |
| Mexico                 | 20.1%        |
| Chile                  | 7.8%         |
| Colombia               | 4.7%         |
| Peru                   | 2.8%         |
| <b>Sector Weights</b>  |              |
| Materials              | 20.7%        |
| Financials             | 21.7%        |
| Energy                 | 15.0%        |
| Cons Staples           | 15.4%        |
| Telecom                | 8.3%         |
| Utilities              | 6.5%         |
| Consumer Disc          | 5.4%         |
| Industrials            | 4.6%         |
| Info Tech              | 1.9%         |
| Health Care            | 0.6%         |

Source: MSCI, FactSet and CIRA

We remain Neutral in Latin America within GEMs. One key positive for the region is that interest rates have been falling and further cuts are expected in Brazil and Chile. The latest central bank policy meeting in Mexico raised the tantalizing prospect that rates could be cut there also. On growth, much will depend on whether recent improvements in the US economy, which have benefited Mexico, continue. If the Chinese growth story looks more secure in three months' time than today, this should, in turn, benefit Brazil. However, Latin America does less well on earnings momentum, ROEs and valuations. The region trades at a hefty premium on a forward P/E basis at 11.1x (the highest for any EM region) v. an historical average of 10.3x, although on a P/BV ratio basis, at 1.82x v 2.05x, the region looks more attractive. The main negative risks to our Neutral on Latin America are: i) a collapse in commodity prices; ii) further weakness in China; and iii) a new slowdown in US growth. Positive risks for the region center around: i) much stronger growth in the US (boosting Mexico) and China (boosting Brazil); ii) a weak dollar; iii) strong commodity prices; and iv) a decisive victory for the PRI in the July 1 elections in Mexico, which could usher in some much-needed structural reforms.

Figure 61. Key Metrics

|             | Performance |        |       |                |       |       | Valuation   |              |       |           |
|-------------|-------------|--------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|             | US\$        |        |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|             | Last Q      | MTD    | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs        | 13.6%       | -3.5%  | 13.6% | 10.3%          | -1.6% | 10.3% | 10.2        | 1.72         | 14.5% | 2.7%      |
| Latam       | 14.0%       | -3.5%  | 14.0% | 9.7%           | 0.7%  | 9.7%  | 11.1        | 1.83         | 13.6% | 2.9%      |
| Energy      | 13.7%       | -9.1%  | 13.7% | 10.6%          | -3.9% | 10.6% | 9.8         | 1.18         | 10.2% | 2.7%      |
| Materials   | 15.2%       | -4.6%  | 15.2% | 11.2%          | -0.7% | 11.2% | 8.5         | 1.52         | 15.4% | 3.7%      |
| Industrials | 23.2%       | 1.0%   | 23.2% | 17.6%          | 4.9%  | 17.6% | 17.5        | 2.69         | 8.4%  | 2.1%      |
| Cons Disc   | 11.8%       | -5.5%  | 11.8% | 6.3%           | -2.3% | 6.3%  | 14.0        | 2.60         | 17.3% | 1.2%      |
| Staples     | 16.9%       | 3.7%   | 16.9% | 11.2%          | 7.3%  | 11.2% | 21.1        | 3.62         | 13.3% | 1.8%      |
| Health Care | n/a         | -10.9% | n/a   | n/a            | -5.3% | n/a   | 17.7        | 2.98         | 7.4%  | 1.4%      |
| Financials  | 10.3%       | -5.8%  | 10.3% | 6.8%           | -1.1% | 6.8%  | 10.4        | 1.85         | 15.4% | 3.2%      |
| Info Tech   | 24.5%       | -5.2%  | 24.5% | 21.8%          | 0.8%  | 21.8% | 16.0        | 15.83        | 83.9% | 4.2%      |
| Telecom     | 11.7%       | 3.2%   | 11.7% | 4.5%           | 5.2%  | 4.5%  | 9.4         | 2.44         | 17.0% | 2.9%      |
| Utilities   | 14.3%       | -2.5%  | 14.3% | 10.2%          | 2.3%  | 10.2% | 11.9        | 1.31         | 9.7%  | 4.0%      |

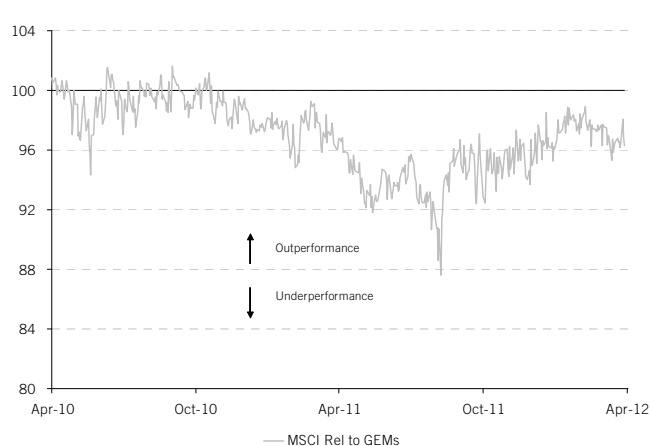
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 62. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

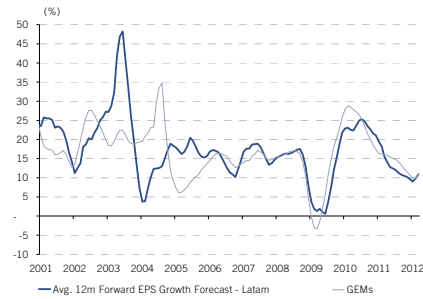
Figure 63. Performance Relative to GEMs



Source: MSCI, Datastream and Citi Investment Research and Analysis

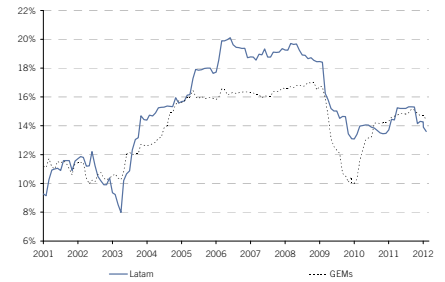
Fundamentals and Valuation

Figure 64. Forward 12m EPS Growth (IBES)



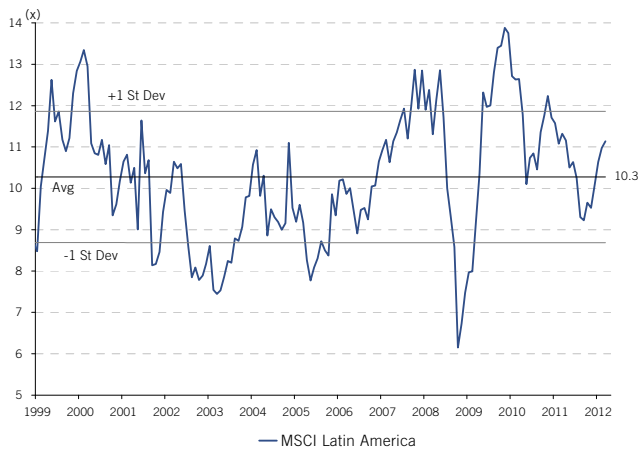
Source: MSCI, IBES, Datastream and CIRA

Figure 65. Trailing ROE



Source: MSCI, Datastream and CIRA

Figure 66. Forward 12m P/E (IBES)



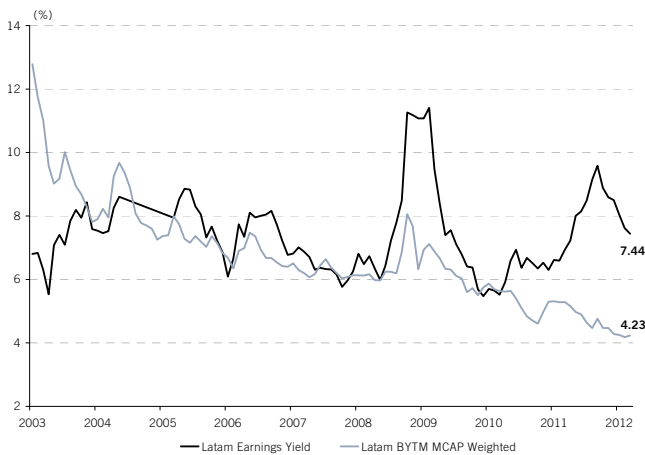
Source: MSCI, IBES, Datastream and CIRA

Figure 67. MSCI P/B



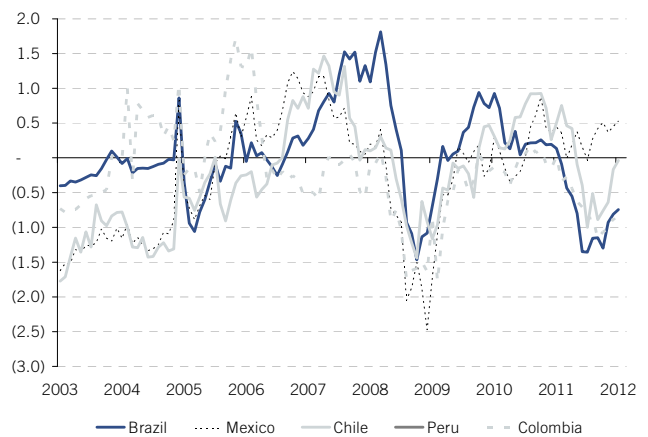
Source: MSCI, IBES, Datastream and CIRA

Figure 68. MSCI Weighted Latam Debt Yield vs Earnings Yields



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 69. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.  
Source: MSCI, IBES, Datastream and CIRA

## CEEMEA – Underweight

Figure 70. Regional Breakdown

|                        |              |
|------------------------|--------------|
| <b>Weight in GEMs</b>  | <b>18.3%</b> |
| FF Mkt Cap (US\$, mn)  | 684.1        |
| <b>Country Weights</b> |              |
| South Africa           | 41.7%        |
| Russia                 | 37.0%        |
| Poland                 | 7.7%         |
| Turkey                 | 7.5%         |
| Egypt                  | 1.9%         |
| Hungary                | 1.7%         |
| Czech Republic         | 1.8%         |
| Morocco                | 0.7%         |
| <b>Sector Weights</b>  |              |
| Financials             | 25.8%        |
| Energy                 | 27.9%        |
| Materials              | 14.6%        |
| Telecom                | 11.2%        |
| Consumer Disc          | 6.7%         |
| Cons Staples           | 5.1%         |
| Utilities              | 3.7%         |
| Industrials            | 3.3%         |
| Health Care            | 1.6%         |
| Info Tech              | 0.2%         |

Source: MSCI, FactSet and CIRA

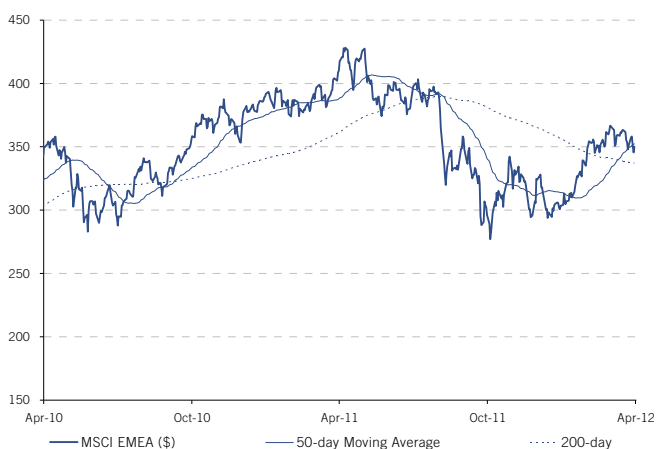
We remain Underweight in CEEMEA, where very attractive valuations are offset by weak growth and the region's high exposure to the Euro Area. CEEMEA scores poorly on earnings and GDP growth. All the GEMs with the biggest exposure to the Euro Area are in CEEMEA, including CE3, Russia and Turkey. The case for Russia has also been damaged recently by the popular protests before the presidential elections in early-March and then by taxation policy towards companies in the extractive sectors. Our CEEMEA strategist, Andrew Howell, is the least bullish of our EM regional strategists. The case for CEEMEA equities in Q2 is not enhanced either by the big gains (+15.4%) in Q1, especially for its high beta markets (Turkey, Hungary, Poland, Russia), which shot out of the gate at the start of 2012 and outperformed in Q1. Another such beta rally seems unlikely in Q2; as a result, we have upgraded South Africa to Overweight. The valuation case for CEEMEA is still strong with the region trading (7.9x forward earnings) at a deep discount (20%) to its own recent average (9.9x) and a 23% discount versus GEMs (10.2x). The risks to our negative view are: i) a repeat of the strong beta rally of Q1; ii) a weak dollar; iii) rising commodity prices; and iv) a turn in the Euro Area economies.

Figure 71. Key Metrics

|             | Performance |        |       |                |       |       | Valuation |          |       |           |
|-------------|-------------|--------|-------|----------------|-------|-------|-----------|----------|-------|-----------|
|             | US\$        |        |       | Local Currency |       |       | Forward   | Trailing | ROE   | Div Yield |
|             | Last Q      | MTD    | YTD   | Last Q         | MTD   | YTD   | P/E       | P/B      |       |           |
| GEMs        | 13.6%       | -3.5%  | 13.6% | 10.3%          | -1.6% | 10.3% | 10.2      | 1.72     | 14.5% | 2.7%      |
| EMEA        | 15.4%       | -4.5%  | 15.4% | 8.3%           | -2.8% | 8.3%  | 7.9       | 1.39     | 16.4% | 3.1%      |
| Energy      | 14.0%       | -6.0%  | 14.0% | 5.7%           | -4.9% | 5.7%  | 4.8       | 0.83     | 17.2% | 2.6%      |
| Materials   | 3.9%        | -10.7% | 3.9%  | -2.2%          | -8.7% | -2.2% | 8.4       | 1.95     | 20.2% | 3.3%      |
| Industrials | 27.4%       | -0.3%  | 27.4% | 22.2%          | 2.0%  | 22.2% | 10.4      | 1.98     | 13.6% | 3.1%      |
| Cons Disc   | 26.2%       | 0.2%   | 26.2% | 19.8%          | 3.1%  | 19.8% | 14.3      | 3.25     | 15.4% | 1.7%      |
| Staples     | 15.5%       | -2.0%  | 15.5% | 10.4%          | 0.1%  | 10.4% | 18.5      | 5.64     | 21.5% | 1.8%      |
| Health Care | 23.9%       | 3.5%   | 23.9% | 16.7%          | 6.6%  | 16.7% | 14.9      | 2.93     | 16.5% | 1.9%      |
| Financials  | 23.2%       | -2.6%  | 23.2% | 15.6%          | -0.7% | 15.6% | 9.2       | 1.57     | 15.3% | 3.3%      |
| Info Tech   | 13.2%       | -8.5%  | 13.2% | 2.8%           | -7.2% | 2.8%  | 10.6      | 0.80     | 8.2%  | 3.6%      |
| Telecom     | 9.0%        | -2.8%  | 9.0%  | 4.1%           | -1.0% | 4.1%  | 10.6      | 2.43     | 17.1% | 5.0%      |
| Utilities   | 12.5%       | -4.5%  | 12.5% | 4.0%           | -3.8% | 4.0%  | 10.2      | 0.78     | 8.9%  | 2.9%      |

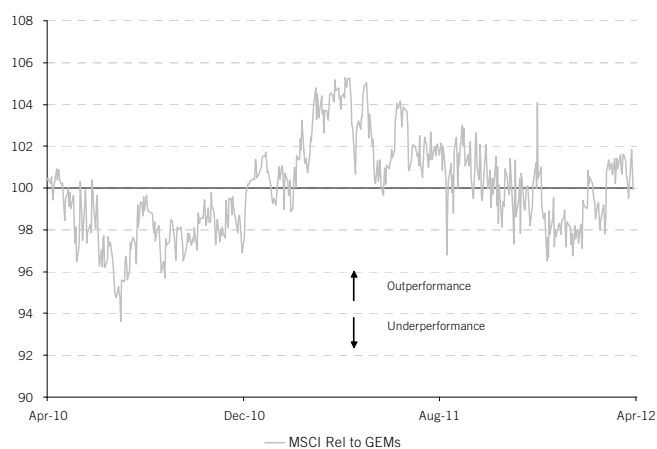
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 72. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 73. Performance Relative to GEMs

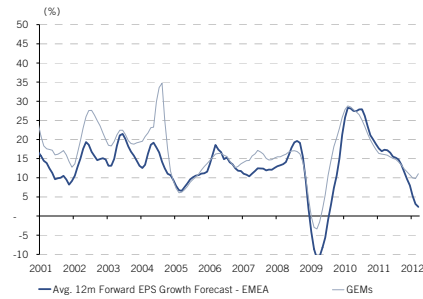


Source: MSCI, Datastream and Citi Investment Research and Analysis



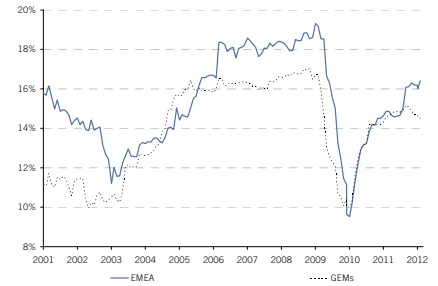
Fundamentals and Valuation

Figure 74. Forward 12m EPS Growth (IBES)



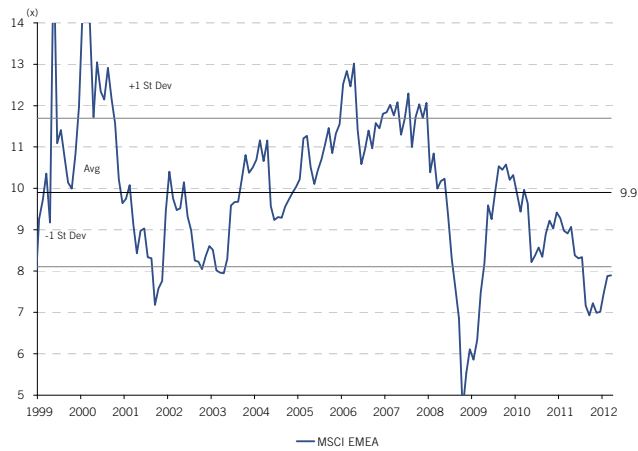
Source: MSCI, IBES, Datastream and CIRA

Figure 75. Trailing ROE



Source: MSCI, Datastream and CIRA

Figure 76. Forward 12m P/E (IBES)



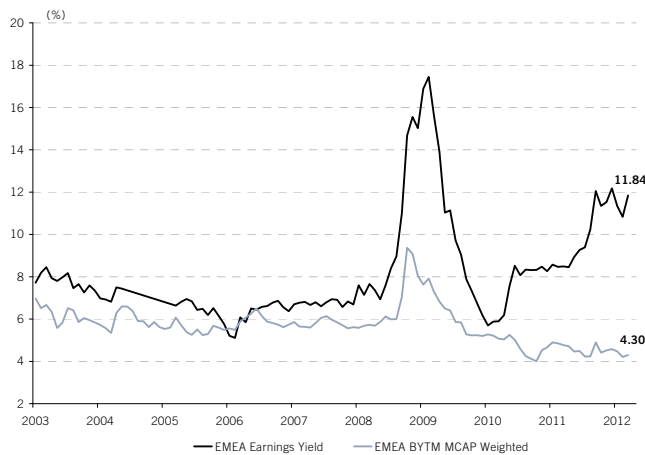
Source: MSCI, IBES, Datastream and CIRA

Figure 77. MSCI P/B



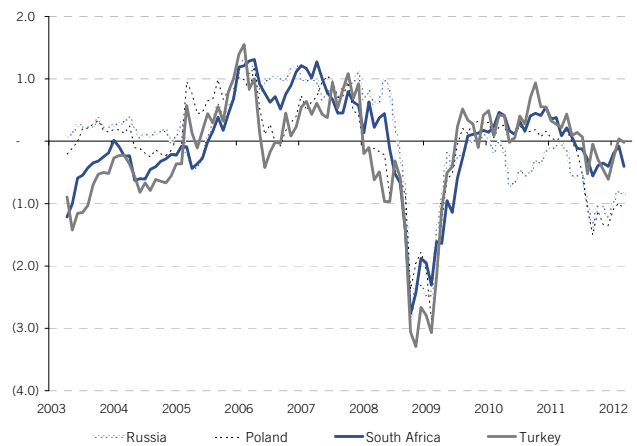
Source: MSCI, IBES, Datastream and CIRA

Figure 78. MSCI Weighted EMEA Debt Yield vs Earnings Yield



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 79. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.  
Source: MSCI, IBES, Datastream and CIRA

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# Countries

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## Brazil – Overweight

Figure 80. Country Breakdown

|                       |              |
|-----------------------|--------------|
| <b>Weight in GEMs</b> | <b>15.1%</b> |
| Weight in Region      | 64.7%        |
| FF Mkt Cap (US\$, mn) | 563.3        |
| <b>Sector Weights</b> |              |
| Energy                | 20.5%        |
| Materials             | 20.2%        |
| Financials            | 24.8%        |
| Cons Staples          | 12.5%        |
| Utilities             | 6.7%         |
| Consumer Disc         | 4.1%         |
| Industrials           | 3.6%         |
| Telecom               | 3.7%         |
| Info Tech             | 3.0%         |
| Health Care           | 0.9%         |

Source: MSCI, FactSet and CIRA

Brazil remains our preferred market in Latin America, though we are warming up to Mexico. Aside from external risks such as a hard landing in China or the breakup of the Euro Area, the biggest risk is inflation. The central bank should cut the target SELIC rate to 9.0% by end-May. This has led to concern, particularly for local investors, that the CB will overshoot on the downside and will have to hike rates aggressively in 2013. For foreign investors, there is concern that the authorities will ‘cap’ currency gains. Our forecast is for modest appreciation to BRL 1.75 by yearend. Expectations for a smaller role of government are low. We have a preference for Financials and Telecoms, where the risk of intervention is lower than Energy and Materials. We also like the general direction of margins and earnings momentum for domestic vs commodity-related sectors. Valuations are not as stretched as some suggest; ex. Energy and Materials, the market is trading in line with its historical average. On virtually every other metric, including CAPE, P/B, dividend yield and the EYR, valuations are still compelling. (Jason Press)

Figure 81. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population mn (2012e)       | 197.0               |
| GDP 2012e (US\$, bn)        | 2,423.6             |
| GDP/Capita (US\$)           | 12,303              |
| Real GDP Growth (2012e)     | 3.3%                |
| Inflation (CPI) (2012e)     | 5.5%                |
| Exports (2012e)             | 251.7               |
| Exports/GDP (2012e)         | 10.4%               |
| Top 3 Exports               | Trans, metals, food |
| CA Balance % of GDP (2012e) | -2.1%               |
| Fiscal Bal % of GDP (2012e) | -1.9%               |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 1,619               |
| MSCI Free Float (US\$, bn)  | 563                 |
| Avg Daily Volume (US\$, mn) | 3,598               |
| Local Index [B'berg Ticker] | Bovespa [IBOV]      |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | BBB                 |
| Currency                    | Real (BRL)          |
| Citi FX Forecast (2012e)    | 1.78                |
| Leader / Next Election      | Rousseff (2014)     |
| Capital                     | Brasilia            |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 82. Map



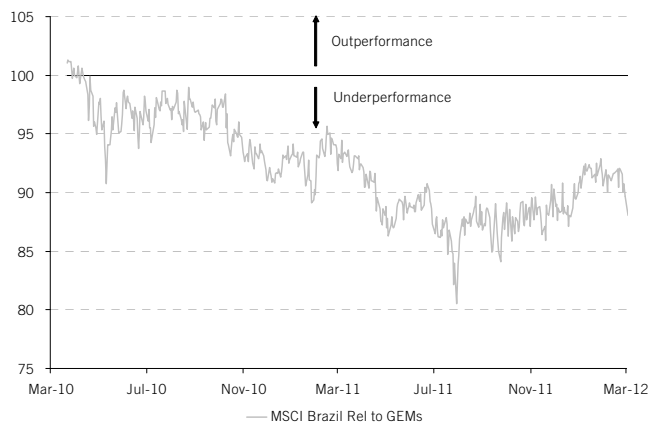
Source: US State Department

Figure 83. Local Index with Moving Averages



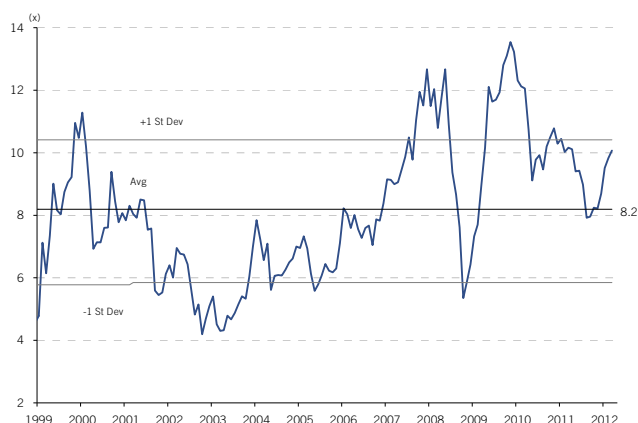
Source: Datastream and Citi Investment Research and Analysis

Figure 84. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 85. MSCI Forward P/E



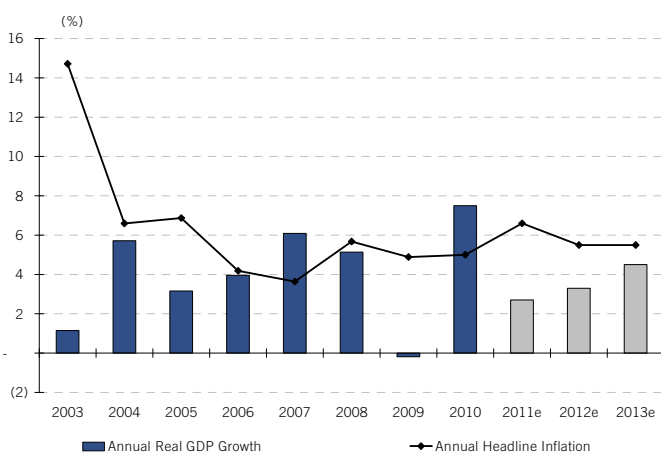
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 86. MSCI Trailing P/B



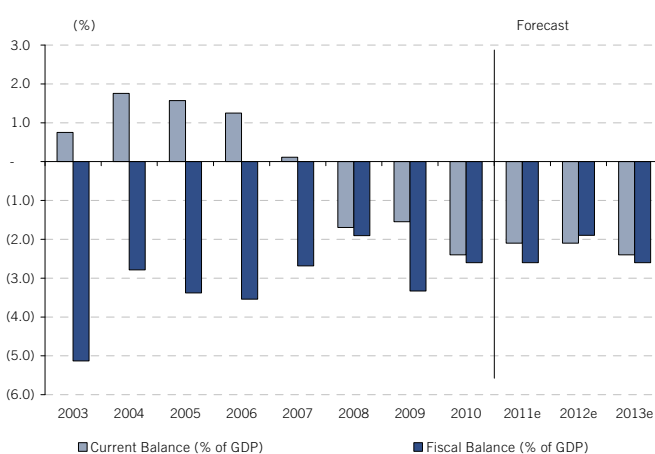
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 87. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 88. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 89. Key Companies (MSCI Index; end-quarter valuation data)

| Name                | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---------------------|----------------------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|                     |                            |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1 PETROBRAS PN      | Energy                     | 53,777                     | 11.1%       | -9.6%  | 11.1% | 9.1          | 0.9        | 6.0                 | 3.0       |
| 2 VALE PNA          | Materials                  | 45,525                     | 12.1%       | -8.2%  | 12.1% | 5.6          | 1.5        | 4.7                 | 4.7       |
| 3 ITAU UNIBANCO PN  | Financials                 | 43,687                     | 5.1%        | -10.7% | 5.1%  | 10.8         | 2.2        | NA                  | 3.3       |
| 4 PETROBRAS ON      | Energy                     | 39,654                     | 8.0%        | -11.0% | 8.0%  | 9.5          | 1.0        | 6.2                 | 2.9       |
| 5 BANCO BRADESCO PN | Financials                 | 33,430                     | 6.0%        | -3.8%  | 6.0%  | 11.0         | 2.2        | NA                  | 2.6       |
| 6 AMBEV PN          | Consumer Staples           | 31,129                     | 14.8%       | 2.9%   | 14.8% | 27.3         | 9.2        | 23.3                | 2.8       |
| 7 VALE ON           | Materials                  | 30,634                     | 11.2%       | -7.3%  | 11.2% | 5.8          | 1.5        | 4.9                 | 4.6       |
| 8 ITAUSA PN         | Financials                 | 14,252                     | 2.0%        | -11.8% | 2.0%  | 10.2         | 1.7        | NA                  | 4.7       |
| 9 BRASIL FOODS ON   | Consumer Staples           | 12,913                     | 1.1%        | -5.6%  | 1.1%  | 18.7         | 2.2        | 11.9                | 2.0       |
| 10 BM&F BOVESPA     | Financials                 | 11,964                     | 17.3%       | -7.9%  | 17.3% | 20.7         | 1.1        | 19.3                | 6.2       |
| 11 OGX PETROLEO     | Energy                     | 10,706                     | 13.4%       | -16.4% | 13.4% | NM           | 5.4        | NM                  | 0.0       |
| 12 TELEF BRASIL PN  | Telecommunication Services | 9,215                      | 11.3%       | 3.4%   | 11.3% | 14.6         | 1.5        | 7.1                 | 9.8       |

Performance in USD. Source: MSCI and FactSet

## Chile – Neutral

We are Neutral in Chile in both our Latam and GEMs portfolios. Valuations suggest that Chile is now trading where it 'should' be, while copper prices look 'toppy', according to our metals analysts. President Sebastián Piñera has pushed for additional government spending in 2012, which bodes well for Chile's already strong domestic growth story. However, inflationary pressures are building with less room for further interest rate cuts (after the surprise cut in January to 5.0%). The improvement in Piñera's approval ratings has stopped, and tax reform will likely add to uncertainty in coming weeks. The market has now priced in that regulators will not impose onerous restrictions in the retail/banking sectors after last year's isolated La Polar event. Our economists do not rule out an S&P upgrade of Chile to AA-, but this may already be priced into the equity market. Traditionally a safe haven, Chile has not been performing like it 'should', outperforming in the rally and before that underperforming in a down market in 2011. **(Jason Press)**

Figure 90. Country Breakdown

|                       |             |
|-----------------------|-------------|
| <b>Weight in GEMs</b> | <b>1.8%</b> |
| Weight in Region      | 7.8%        |
| FF Mkt Cap (US\$, mn) | 68.2        |
| <b>Sector Weights</b> |             |
| Utilities             | 24.0%       |
| Materials             | 20.2%       |
| Industrials           | 17.2%       |
| Consumer Staples      | 13.1%       |
| Financials            | 17.3%       |
| Consumer Disc         | 5.2%        |
| Telecom               | 3.1%        |
| Energy                | 0.0%        |
| Health Care           | 0.0%        |
| Info Tech             | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 91. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population (mn)             | 17.3                 |
| GDP 2012e (US\$, bn)        | 250.6                |
| GDP/Capita (US\$)           | 14,486               |
| Real GDP Growth (2012e)     | 4.2%                 |
| Inflation (CPI) (2012e)     | 3.8%                 |
| Exports (2012)              | 78.5                 |
| Exports/GDP (2012)          | 31.3%                |
| Top 3 Exports               | Copper, fruit, paper |
| CA Balance % of GDP (2012e) | -1.9%                |
| Fiscal Bal % of GDP (2012e) | 0.7%                 |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 319                  |
| MSCI Free Float (US\$, bn)  | 68                   |
| Avg Daily Volume (US\$, mn) | 185                  |
| Local Index [B'berg Ticker] | IPSA [IPSA]          |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | A+                   |
| Currency                    | Peso (CLP)           |
| Citi FX Forecast (2012e)    | 487                  |
| Leader / Next Election      | S. Piñera (2013)     |
| Capital                     | Santiago             |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 92. Map



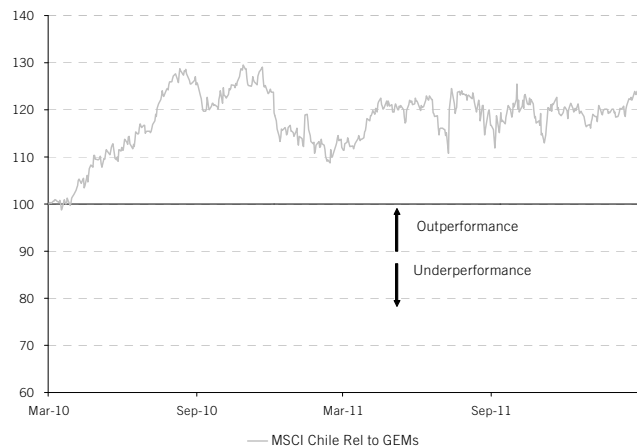
Source: US State Department

Figure 93. Local Index with Moving Averages



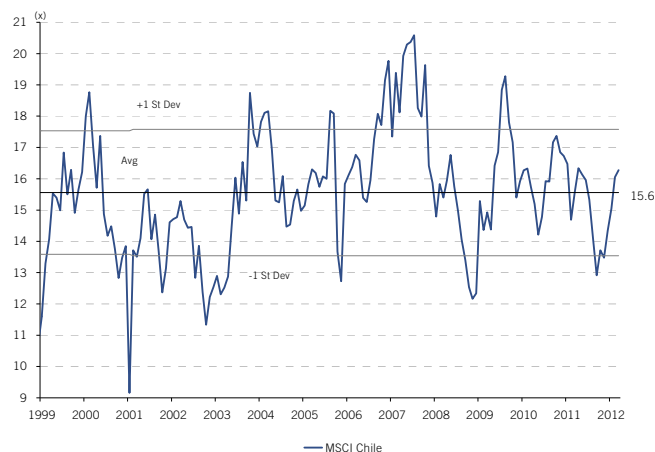
Source: Datastream and Citi Investment Research and Analysis

Figure 94. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 95. MSCI Forward P/E



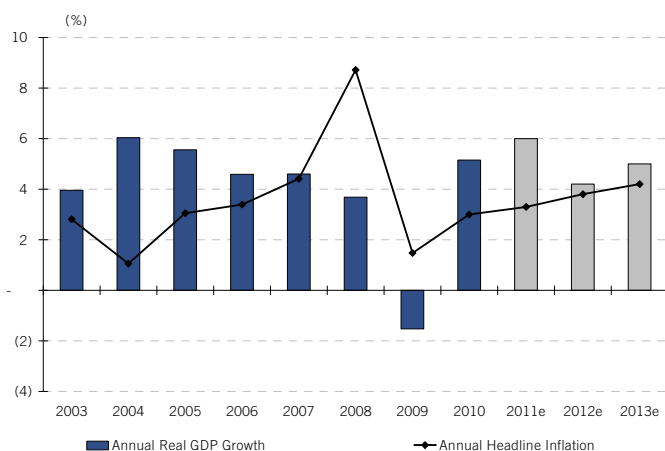
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 96. MSCI Trailing P/B



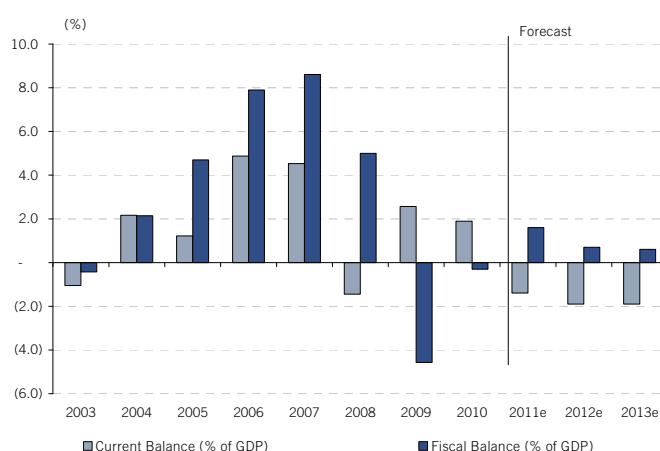
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 97. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 98. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 99. Key Companies (MSCI Index; end-Quarter)

| Name                        | Sector                 | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|-----------------------------|------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                             |                        |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 EMPRESAS COPEC            | Industrials            | 7,597                      | 25.0%       | -2.7% | 25.0% | 21.8         | 2.1        | 15.5                | 1.9       |
| 2 CENCOSUD                  | Consumer Staples       | 6,000                      | 14.4%       | 1.7%  | 14.4% | 25.4         | 2.6        | 17.3                | 1.1       |
| 3 ENDESA (CHILE)            | Utilities              | 5,911                      | 22.2%       | 1.8%  | 22.2% | 16.1         | 2.8        | 11.6                | 0.6       |
| 4 SOQUIMICH B               | Materials              | 5,667                      | 9.3%        | -1.7% | 9.3%  | 28.4         | 8.5        | 20.9                | 1.2       |
| 5 BCO SANTANDER CHILE (NEV) | Financials             | 5,478                      | 15.3%       | 4.8%  | 15.3% | 17.6         | 3.8        | NA                  | 3.7       |
| 6 ENERSIS                   | Utilities              | 5,300                      | 15.4%       | -0.7% | 15.4% | 17.2         | 1.7        | 8.1                 | 3.0       |
| 7 CMPC (EMPRESAS)           | Materials              | 4,773                      | 16.8%       | -2.9% | 16.8% | 18.2         | 1.1        | 11.7                | 2.0       |
| 8 LAN AIRLINES              | Industrials            | 3,994                      | 25.4%       | 7.3%  | 25.4% | 31.2         | 6.9        | 16.0                | 0.9       |
| 9 FALABELLA                 | Consumer Discretionary | 3,486                      | 24.2%       | -3.4% | 24.2% | 26.8         | 4.2        | 21.8                | 0.6       |
| 10 CAP                      | Materials              | 3,180                      | 16.4%       | -1.3% | 16.4% | 13.5         | 3.5        | 11.7                | 2.7       |
| 11 BANCO DE CHILE           | Financials             | 2,748                      | 16.3%       | -1.3% | 16.3% | 15.6         | 3.9        | NA                  | 3.9       |
| 12 BANCO DE CREDITO E INV.  | Financials             | 2,186                      | 26.0%       | 5.9%  | 26.0% | 13.6         | 2.9        | NA                  | 2.4       |

Performance in USD. Source: MSCI and FactSet

## China – Overweight

Figure 100. Country Breakdown

|                            |              |
|----------------------------|--------------|
| <b>Weight in GEMs</b>      | <b>17.2%</b> |
| Weight in Region           | 29.5%        |
| FF Mkt Cap (US\$, mn)      | 644.8        |
| <b>Sector Weights</b>      |              |
| Financials                 | 34.5%        |
| Energy                     | 18.9%        |
| Telecommunication Services | 13.1%        |
| Industrials                | 6.8%         |
| Materials                  | 5.2%         |
| Consumer Discretionary     | 6.1%         |
| Information Technology     | 6.7%         |
| Consumer Staples           | 5.5%         |
| Utilities                  | 2.3%         |
| Health Care                | 0.9%         |

Source: MSCI, FactSet and CIRA

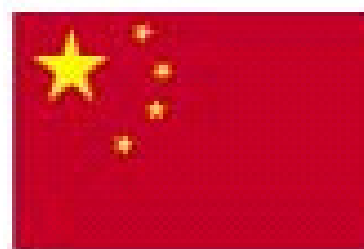
MSCI China rose by 9.9% in Q1, the third worst performing market in Asia ex. Pessimism about growth mounted during Q1, undermined by a mix of worse-than expected macro data, slower than expected policy easing and a disappointing speech delivered by the NPC on the fiscal front and on property measures, although our economists explained that the fiscal policy is more expansionary than the headline budget deficit. While inflation fell along with the growth slowdown, policy makers remain cautious due to resilient employment and potential price reforms. Delayed policy easing raises the risk that the economic slowdown may carry over into Q2. Our economists expect further policy easing through RRR cuts; an interest rate cut is unlikely, unless inflation falls sustainably below 3%. The growth risk appears largely priced in as MSCI China is now trading at 9.1x 2012 P/E, the lowest in Asia ex; on trailing EPS, it is at 0.9x standard deviations below average. We favor Banks, Real Estate, Telecoms and Energy. **(Markus Rosgen)**

Figure 101. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population mn (2012e)       | 1,353.4              |
| GDP 2012e (US\$, bn)        | 8,392.0              |
| GDP/Capita (US\$)           | 6,201                |
| Real GDP Growth (2012e)     | 8.4%                 |
| Inflation (CPI) (2012e)     | 3.3%                 |
| Exports (2010)              | 1995.3               |
| Exports/GDP (2010)          | 23.8%                |
| Top 3 Exports               | Elec., clothing, oil |
| CA Balance % of GDP (2012e) | 2.0%                 |
| Fiscal Bal % of GDP (2012e) | -2.0%                |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 2,995                |
| MSCI Free Float (US\$, bn)  | 645                  |
| Avg Daily Volume (US\$, mn) | 18,088               |
| Local Index [B'berg Ticker] | Shanghai [SHCOMP]    |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | AA-                  |
| Currency                    | Yuan/RMB (CNY)       |
| Citi FX Forecast (2012e)    | 6.30                 |
| Leader / Next Election      | Hu Jintao (2012)     |
| Capital                     | Beijing              |

Volumes incl Shanghai and Shenzhen exchanges  
Source: MSCI, Bloomberg, EIU, CIRA

Figure 102. Flag



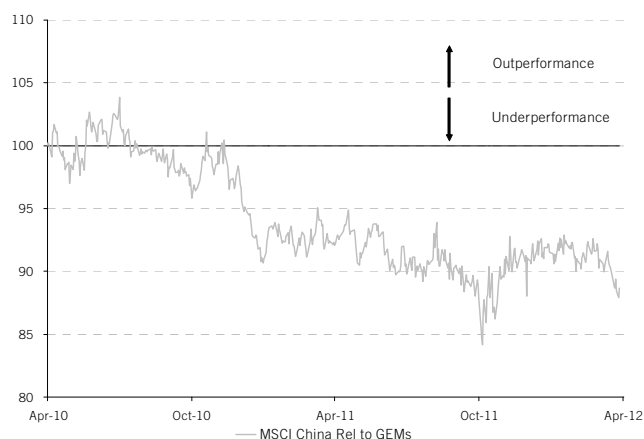
Source: Economist Intelligence Unit

Figure 103. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 104. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis



Figure 105. MSCI Forward P/E



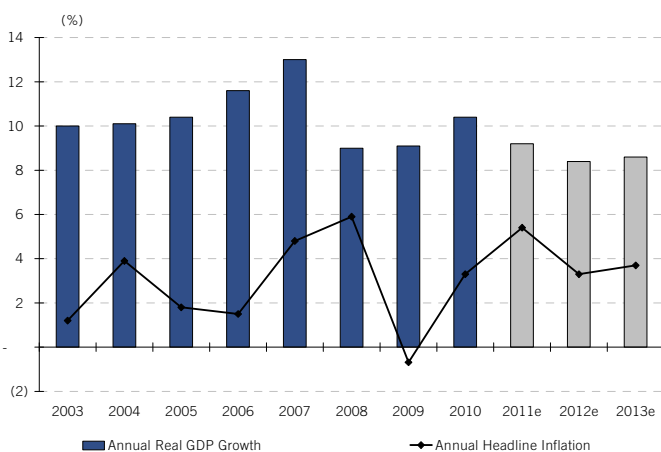
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 106. MSCI Trailing P/B



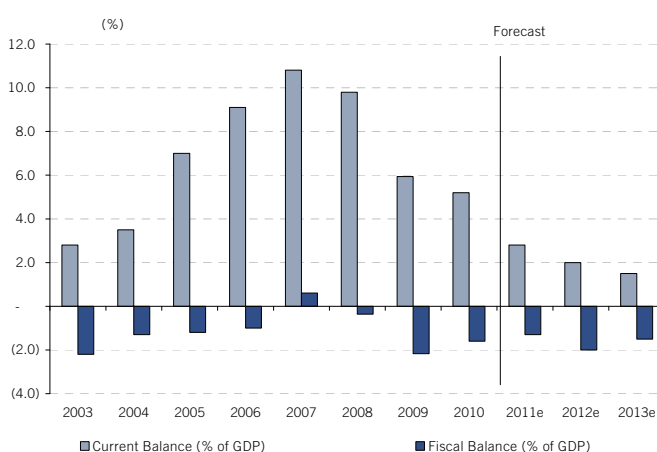
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 107. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 108. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 109. Key Companies (MSCI Index; end-quarter valuation data)

| Name                       | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----------------------------|----------------------------|----------------------------|-------------|--------|--------|--------------|------------|---------------------|-----------|
|                            |                            |                            | Last Q      | MTD    | YTD    |              |            |                     |           |
| 1 CHINA MOBILE             | Telecommunication Services | 66,270                     | 12.6%       | 3.0%   | 12.6%  | 11.1         | 2.1        | 6.2                 | 3.9       |
| 2 CHINA CONSTRUCTION BK H  | Financials                 | 46,448                     | 10.7%       | -8.1%  | 10.7%  | 7.4          | 1.6        | NA                  | 4.4       |
| 3 ICBC H                   | Financials                 | 39,205                     | 8.7%        | -12.0% | 8.7%   | 7.0          | 1.6        | NA                  | 5.0       |
| 4 CNOOC                    | Energy                     | 36,730                     | 17.6%       | -10.4% | 17.6%  | 8.5          | 2.4        | 6.4                 | 3.3       |
| 5 PETROCHINA CO H          | Energy                     | 29,838                     | 13.6%       | -6.6%  | 13.6%  | 11.4         | 1.7        | 5.9                 | 3.9       |
| 6 TENCENT HOLDINGS LIM(CN) | Information Technology     | 28,226                     | 38.8%       | 7.1%   | 38.8%  | 31.6         | 11.3       | 26.6                | 0.3       |
| 7 BANK OF CHINA H          | Financials                 | 26,969                     | 9.5%        | -7.5%  | 9.5%   | 5.8          | 1.0        | NA                  | 5.8       |
| 8 CHINA LIFE INSURANCE H   | Financials                 | 19,312                     | 5.0%        | -16.8% | 5.0%   | 18.2         | 2.6        | NA                  | 2.4       |
| 9 CHINA PETRO & CHEM H     | Energy                     | 18,285                     | 3.6%        | -4.9%  | 3.6%   | 7.9          | 1.3        | 4.3                 | 3.4       |
| 10 CHINA SHENHUA ENERGY H  | Energy                     | 14,336                     | -2.8%       | -8.7%  | -2.8%  | 12.0         | 2.5        | 9.1                 | 2.8       |
| 11 PING AN INSURANCE H     | Financials                 | 13,014                     | 14.7%       | -13.6% | 14.7%  | 19.4         | 2.9        | NA                  | 1.2       |
| 12 CHINA UNICOM            | Telecommunication Services | 9,986                      | -19.4%      | -6.1%  | -19.4% | NM           | 1.2        | 7.3                 | 0.7       |

Performance in USD. Source: MSCI and FactSet

## Colombia – Underweight

Colombia is an Underweight within both our GEMs and Latin American portfolios. Expensive valuations, interest rate hikes (despite Banrep's decision on March 23 to remain on hold), an earnings deceleration and an equity issuance overhang explain our caution. Global investors ask about the ability of President Juan Manuel Santos to keep the country safe after ex-President Alvaro Uribe's impressive track record. Since the US approved a Free Trade Agreement with Colombia, during 2012 we will watch how Colombia's FTA with South Korea progresses; some industrial sectors have argued that the impact of this FTA could harm local production. Particularly after the market's outperformance in 2011 and in Q1, valuations are expensive, even relative to Colombian levels. Longer term, we continue to see opportunity in Colombia given a strong consumption base and ongoing discoveries of key commodities. **(Jason Press)**

Figure 110. Country Breakdown

|                       |             |
|-----------------------|-------------|
| <b>Weight in GEMs</b> | <b>1.1%</b> |
| Weight in Region      | 4.7%        |
| FF Mkt Cap (US\$, mn) | 40.7        |
| <b>Sector Weights</b> |             |
| Financials            | 38.3%       |
| Energy                | 37.2%       |
| Materials             | 11.3%       |
| Utilities             | 6.1%        |
| Consumer Staples      | 7.1%        |
| Industrials           | 0.0%        |
| Consumer Disc         | 0.0%        |
| Health Care           | 0.0%        |
| Info Tech             | 0.0%        |
| Telecom               | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 111. Snapshot

|                             |                    |
|-----------------------------|--------------------|
| <b>Macro</b>                |                    |
| Population mn (2012e)       | 46.5               |
| GDP 2012e (US\$, bn)        | 368.0              |
| GDP/Capita (US\$)           | 7,903              |
| Real GDP Growth (2012e)     | 5.1%               |
| Inflation (CPI) (2012e)     | 3.7%               |
| Exports (2012)              | 66.1               |
| Exports/GDP (2012)          | 18.0%              |
| Top 3 Exports               | Oil, coal, coffee  |
| CA Balance % of GDP (2012e) | -3.0%              |
| Fiscal Bal % of GDP (2012e) | -3.0%              |
| <b>Market</b>               |                    |
| Total Mkt Cap (US\$, bn)    | 247                |
| MSCI Free Float (US\$, bn)  | 41                 |
| Avg Daily Volume (US\$, mn) | 182                |
| Local Index [B'berg Ticker] | IGBC [IGBC]        |
| <b>Other</b>                |                    |
| Credit Rating (S&P)         | BBB-               |
| Currency                    | Peso (COP)         |
| Citi FX Forecast (2012e)    | 1758               |
| Leader / Next Election      | J.M. Santos (2014) |
| Capital                     | Bogotá             |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 112. Map



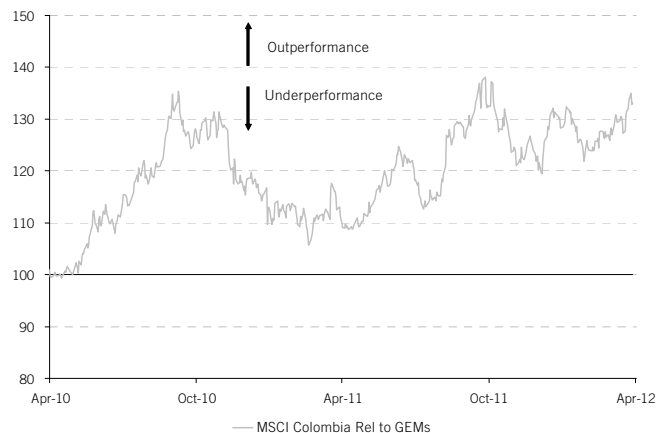
Source: US State Department

Figure 113. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 114. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 115. MSCI Forward P/E



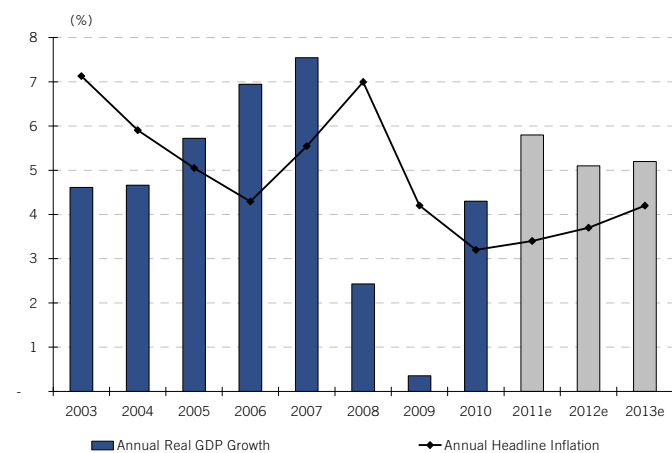
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 116. MSCI Trailing P/B



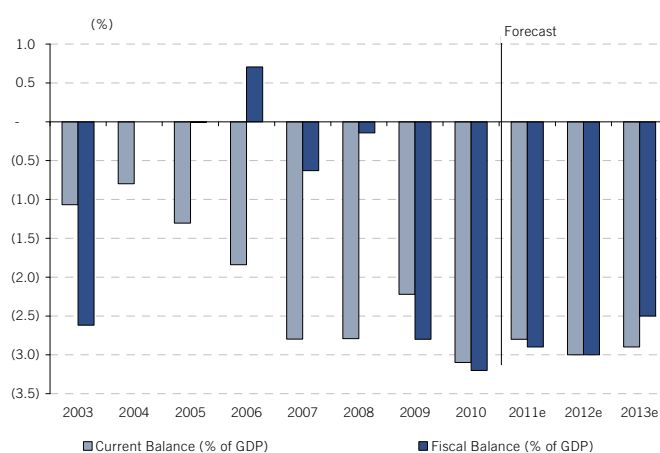
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 117. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 118. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 119. Key Companies (MSCI Index; end-quarter valuation data)

| Name | Sector                   | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |     |
|------|--------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|-----|
|      |                          |                            | Last Q      | MTD   | YTD   |              |            |                     |           |     |
| 1    | ECOPETROL                | Energy                     | 14,916      | 39.0% | 2.8%  | 39.0%        | 16.0       | 4.7                 | 12.8      | 3.2 |
| 2    | BANCOLOMBIA PREF         | Financials                 | 5,175       | 11.8% | -1.1% | 11.8%        | 13.5       | 2.3                 | NA        | 2.4 |
| 3    | GPO. INVER. SURAMERICANA | Financials                 | 4,068       | 8.1%  | -5.5% | 8.1%         | 21.3       | 0.8                 | 20.8      | 0.9 |
| 4    | BANCOLOMBIA ORD          | Financials                 | 3,588       | 6.5%  | -0.7% | 6.5%         | 13.3       | 2.5                 | NA        | 2.4 |
| 5    | ALMACENES EXITO          | Consumer Staples           | 2,911       | 10.0% | 1.7%  | 10.0%        | 29.8       | 1.6                 | NA        | 2.5 |
| 6    | INVERSIONES ARGOS        | Materials                  | 2,755       | 9.3%  | 0.0%  | 9.3%         | NM         | 1.2                 | 46.3      | 1.2 |
| 7    | INTERCONEXION ELEC (NEW) | Utilities                  | 2,439       | 8.9%  | -2.3% | 8.9%         | 35.9       | 2.0                 | 12.9      | 1.5 |
| 8    | CEMENTOS ARGOS (NEW)     | Materials                  | 1,779       | 10.3% | 0.4%  | 10.3%        | 34.6       | 1.1                 | 30.2      | 1.8 |
| 9    | CORP FIN COLOMBIANA ORD  | Financials                 | 1,378       | 10.8% | 0.8%  | 10.8%        | 11.0       | 2.3                 | 11.0      | 3.5 |

Performance in USD. Source: MSCI and FactSet

## Czech Republic – Underweight

Figure 120. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.3%</b> |
| Weight in Region           | 1.8%        |
| FF Mkt Cap (US\$, mn)      | 12.5        |
| <b>Sector Weights</b>      |             |
| Utilities                  | 56.1%       |
| Financials                 | 24.8%       |
| Telecommunication Services | 19.1%       |
| Energy                     | 0.0%        |
| Materials                  | 0.0%        |
| Industrials                | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Consumer Staples           | 0.0%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

Czech GDP is forecast to contract modestly in 2012 in light of sluggish domestic demand, even if export activity remains solid, which supports some recent acceleration in industrial output. The government remains committed to fiscal consolidation, although the mix of austerity measures is yet to be finalized. Czech's small equity market, with a predominantly defensive mix of stocks, has been a YTD underperformer within GEMs. Citi analysts expect earnings growth of 10% for the market in 2012, driven by Komerční Banka (BKOMsp.PR; Kc3,245.00; 1) and Telefonica O2 (SPTTsp.PR; Kc390.00; 1). At 6.6%, the Czech market offers the highest dividend yield in the whole of GEMs, although the market trades on a PE premium to GEMs. Utility CEZ is our top pick thanks to attractive valuation and balance sheet strength, trading at a discount to the power price forward curve. (Andrew Howell)

Figure 121. Snapshot

|                             |                  |
|-----------------------------|------------------|
| <b>Macro</b>                |                  |
| Population mn (2012e)       | 10.6             |
| GDP 2012e (US\$, bn)        | 196.0            |
| GDP/Capita (US\$)           | 18,491           |
| Real GDP Growth (2012e)     | -0.4%            |
| Inflation (CPI) (2012e)     | 3.4%             |
| Exports (2012e)             | 132.0            |
| Exports/GDP (2012)          | 67.3%            |
| Top 3 Exports               | Mach, semi, chem |
| CA Balance % of GDP (2012e) | -3.6%            |
| Fiscal Bal % of GDP (2012e) | -3.7%            |
| <b>Market</b>               |                  |
| Total Mkt Cap (US\$, bn)    | 43.8             |
| MSCI Free Float (US\$, bn)  | 13               |
| Avg Daily Volume (US\$, mn) | n/a              |
| Local Index (B'berg Ticker) | Prague [PX]      |
| <b>Other</b>                |                  |
| Credit Rating (S&P)         | AA-              |
| Currency                    | Koruna (CZK)     |
| Citi FX Forecast (2012e)    | 24.7             |
| Leader / Next Election      | P. Necas (2013)  |
| Capital                     | Prague           |

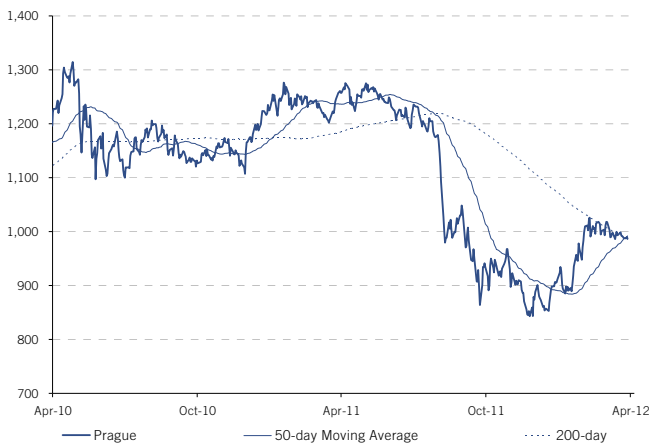
Source: MSCI, Bloomberg, EIU, CIRA

Figure 122. Map



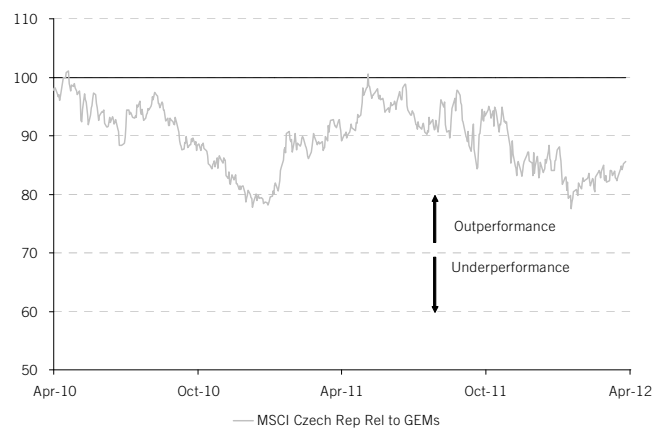
Source: US State Department

Figure 123. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 124. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 125. MSCI Forward P/E



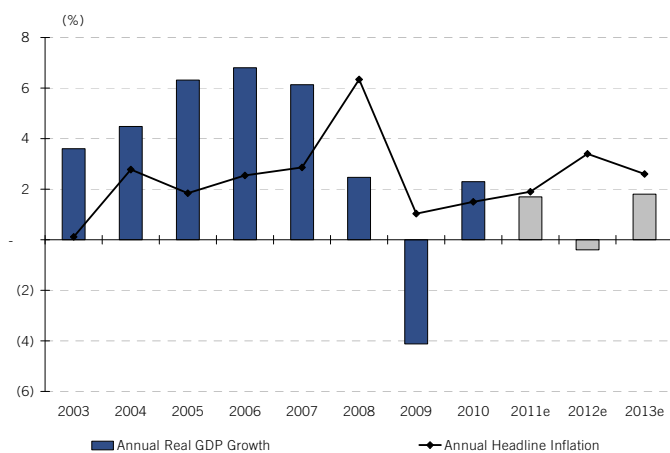
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 126. MSCI Trailing P/B



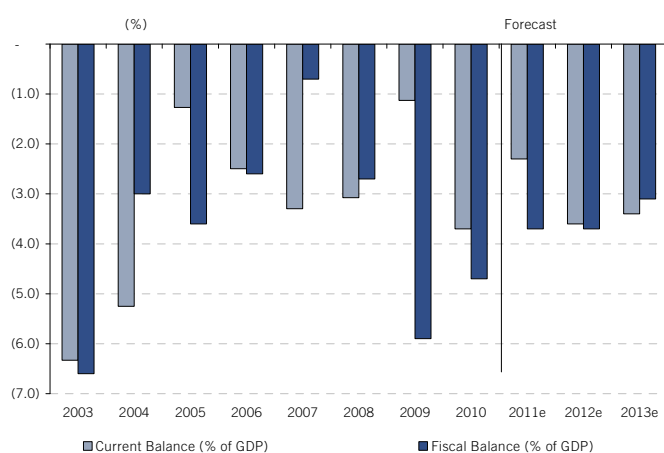
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 127. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 128. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 129. Key Companies (MSCI Index; end-quarter valuation data)

|   | Name                   | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---|------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|   |                        |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 | CEZ CESKE ENER. ZAVODY | Utilities                  | 6,905                      | 6.9%        | -1.2% | 6.9%  | 10.5         | 1.9        | 6.4                 | 6.3       |
| 2 | KOMERCNI BANKA         | Financials                 | 3,015                      | 17.0%       | 1.0%  | 17.0% | 14.8         | 1.7        | NA                  | 7.3       |
| 3 | TELEFONICA CZECH REP.  | Telecommunication Services | 2,356                      | 7.2%        | -4.2% | 7.2%  | 14.5         | 1.8        | 6.2                 | 10.3      |

Performance in USD. Source: MSCI and FactSet

## Egypt – Neutral

Figure 130. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.3%</b> |
| Weight in Region           | 1.9%        |
| FF Mkt Cap (US\$, mn)      | 13.1        |
| <b>Sector Weights</b>      |             |
| Financials                 | 38.2%       |
| Industrials                | 30.4%       |
| Telecommunication Services | 31.4%       |
| Materials                  | 0.0%        |
| Energy                     | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Consumer Staples           | 0.0%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

2012 is likely to be a year of difficult political and economic adjustment for Egypt. In the near term, politics will remain centre stage, with presidential elections scheduled for June. In the meantime, the dominant party in Parliament needs to work with the Supreme Council of the Armed Forces on re-writing the constitution, and progress on this will be essential for maintaining political stability in the country. There is also a pressing need to reach agreement with the IMF and donors, although the government appears intent on delaying a deal for as long as possible. Key economic issues for the government are financing of the widening current account deficit, curbing inflation and maintaining a stable exchange rate. The stock market has bounced sharply in early 2012 and rerated in the process, but is still looking attractive on a relative basis. Citi analysts expect reasonable EPS growth of 17% in 2012, although the political and economic uncertainty may impact the forecasts substantially. **(Andrew Howell)**.

Figure 131. Snapshot

|                             |                                   |
|-----------------------------|-----------------------------------|
| <b>Macro</b>                |                                   |
| Population mn (2012e)       | 84                                |
| GDP 2012e (US\$, bn)        | 253.0                             |
| GDP/Capita (US\$)           | 3,012                             |
| Real GDP Growth (2012e)     | 3.0%                              |
| Inflation (CPI) (2012e)     | 12.1%                             |
| Exports (2012e)             | 28.8                              |
| Exports/GDP (2012)          | 11.4%                             |
| Top 3 Exports               | Oil, semis, metal                 |
| CA Balance % of GDP (2012e) | -2.7%                             |
| Fiscal Bal % of GDP (2012e) | -8.6%                             |
| <b>Market</b>               |                                   |
| Total Mkt Cap (US\$, bn)    | 64.4                              |
| MSCI Free Float (US\$, bn)  | 13                                |
| Avg Daily Volume (US\$, mn) | 68                                |
| Local Index [B'berg Ticker] | Hermes [HERMES]                   |
| <b>Other</b>                |                                   |
| Credit Rating (S&P)         | B                                 |
| Currency                    | Pound (EGP)                       |
| Citi FX Forecast (2012e)    | 6.24                              |
| Leader / Next Election      | Mohamed Hussein Tantawi (June-12) |
| Capital                     | Cairo                             |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 132. Map



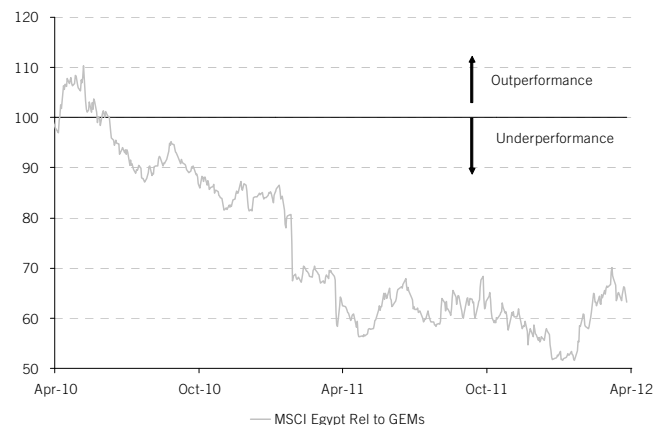
Source: US State Department

Figure 133. Local Index with Moving Averages



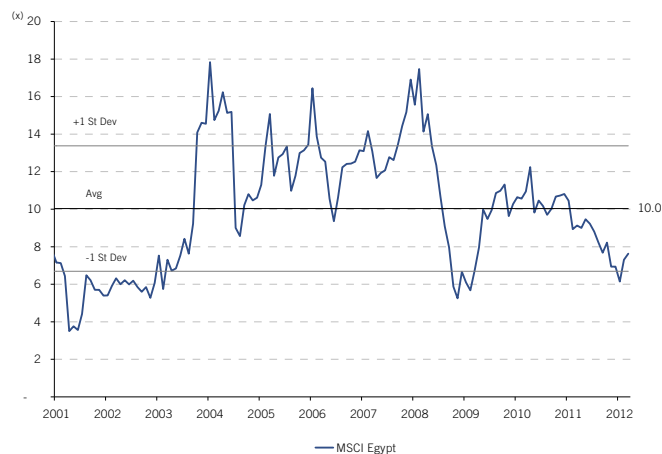
Source: Datastream and Citi Investment Research and Analysis

Figure 134. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 135. MSCI Forward P/E



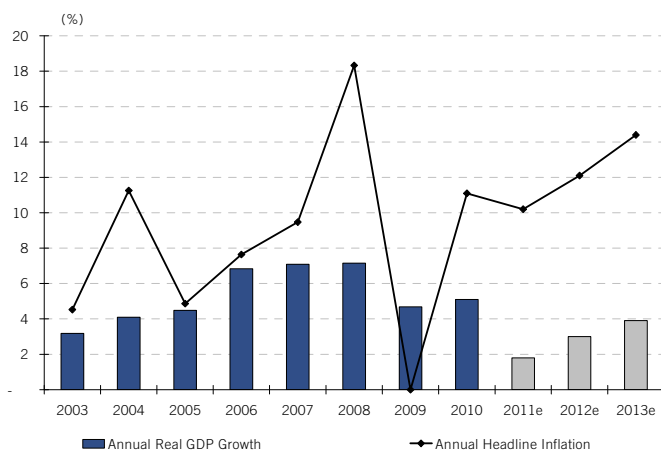
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 136. MSCI Trailing P/B



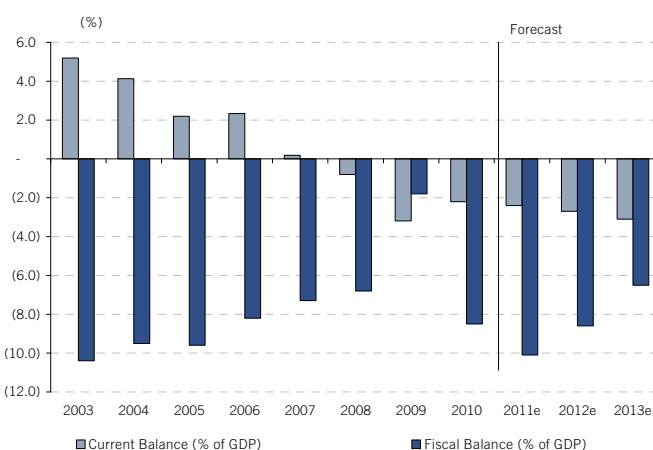
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 137. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 138. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 139. Key Companies (MSCI Index; end-quarter valuation data)

|   | Name                     | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---|--------------------------|----------------------------|----------------------------|-------------|--------|--------|--------------|------------|---------------------|-----------|
|   |                          |                            |                            | Last Q      | MTD    | YTD    |              |            |                     |           |
| 1 | ORASCOM CONSTRUCTION II  | Industrials                | 4,050                      | 29.2%       | -6.0%  | 29.2%  | 12.5         | 3.0        | 9.3                 | 4.9       |
| 2 | COMMERCIAL INT'L BANK    | Financials                 | 2,331                      | 33.3%       | -0.5%  | 33.3%  | 9.2          | 1.7        | NA                  | 4.0       |
| 3 | ORASCOM TELECOM HOLDIN   | Telecommunication Services | 1,776                      | 37.0%       | -1.8%  | 37.0%  | NM           | 1.2        | 4.0                 | 0.0       |
| 4 | EGYPTIAN MOBILE SERVICES | Telecommunication Services | 885                        | 127.5%      | 0.5%   | 127.5% | NM           | 7.2        | 8.3                 | 6.9       |
| 5 | EFG-HERMES HOLDING       | Financials                 | 807                        | 35.5%       | -8.4%  | 35.5%  | 36.4         | 0.8        | 24.8                | 0.0       |
| 6 | TELECOM EGYPT            | Telecommunication Services | 800                        | 7.0%        | -11.6% | 7.0%   | 8.3          | 0.9        | NA                  | 2.1       |
| 7 | EGYPT KUWAIT HOLDING     | Financials                 | 765                        | 16.3%       | -8.1%  | 16.3%  | 6.6          | 1.3        | 5.2                 | 4.4       |
| 8 | TMG HOLDING              | Financials                 | 632                        | 38.6%       | -14.0% | 38.6%  | 14.7         | 0.3        | 11.7                | 0.0       |
| 9 | ORASCOM TEL. MEDIA       | Telecommunication Services | 630                        | NA          | -7.8%  | NA     | 11.5         | 2.8        | 5.3                 |           |

Performance in USD. Source: MSCI and FactSet

## Hungary – Underweight

We are cautious, at best, on Hungary given a combination of spill-over effects from the EU debt crisis and home-grown economic problems. In addition to a lack of economic growth, deleveraging is a major concern, with consumers having built up high mortgage debt, often denominated in foreign currency. Compounded by domestic regulatory and political risks, recent downgrades by S&P and Moody's to below investment grade, as well as a lack of clarity on cooperation with the IMF, the outlook looks challenging. A relatively strong fiscal position is outweighed, in our view, by high exposure to foreign investors and the rollover risks that this poses to sovereign debt. Hungary is likely to deliver fiscal tightening to remain eligible for EU funds, although questions remain how this will be achieved. We see serious challenges to the banking sector stemming from bank deleveraging, given that a substantial share of local banking assets is owned by European banks, as well as the dependence of the sector on wholesale funding. Hungarian equities do not appear attractive, given the macro risks associated with the market. **(Andrew Howell)**

Figure 140. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.3%</b> |
| Weight in Region           | 1.7%        |
| FF Mkt Cap (US\$, mn)      | 11.4        |
| <b>Sector Weights</b>      |             |
| Financials                 | 37.1%       |
| Energy                     | 31.4%       |
| Health Care                | 20.7%       |
| Telecommunication Services | 10.8%       |
| Materials                  | 0.0%        |
| Industrials                | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Consumer Staples           | 0.0%        |
| Information Technology     | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 141. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population mn (2012e)       | 9.9                 |
| GDP 2012e (US\$, bn)        | 126.1               |
| GDP/Capita (US\$)           | 12,737              |
| Real GDP Growth (2012e)     | 0.0%                |
| Inflation (CPI) (2012e)     | 5.6%                |
| Exports (2012e)             | 93.4                |
| Exports/GDP (2010)          | 71.6%               |
| Top 3 Exports               | Mach, food, raw mat |
| CA Balance % of GDP (2012e) | 1.4%                |
| Fiscal Bal % of GDP (2012e) | -3.2%               |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 22.7                |
| MSCI Free Float (US\$, bn)  | 11                  |
| Avg Daily Volume (US\$, mn) | 63                  |
| Local Index [B'berg Ticker] | Budapest [BUX]      |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | BB+                 |
| Currency                    | Forint (HUF)        |
| Citi FX Forecast (2012e)    | 294                 |
| Leader / Next Election      | V. Orbán (2014)     |
| Capital                     | Budapest            |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 142. Map



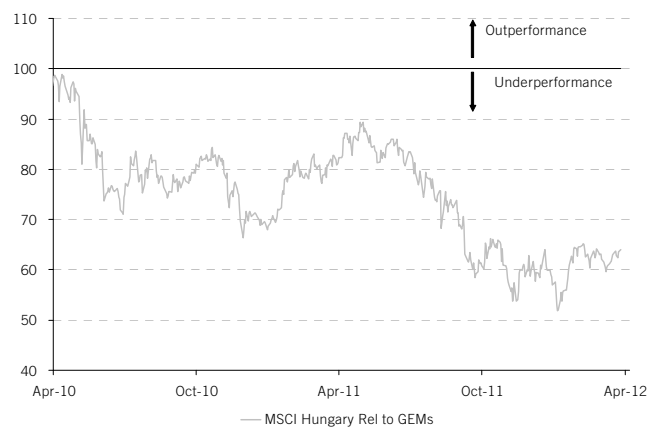
Source: Economist Intelligence Unit

Figure 143. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

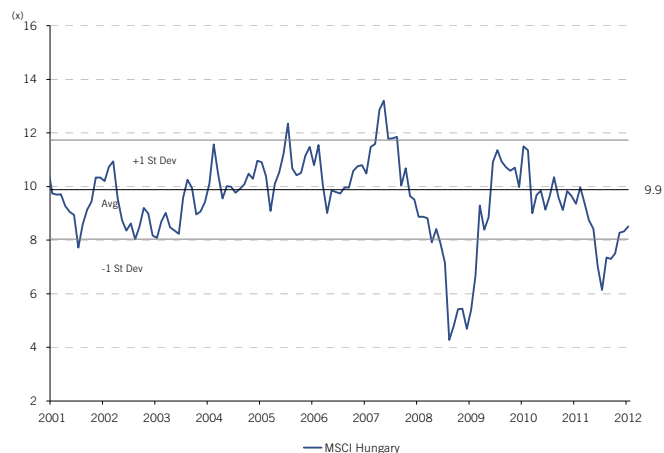
Figure 144. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis



Figure 145. MSCI Forward P/E



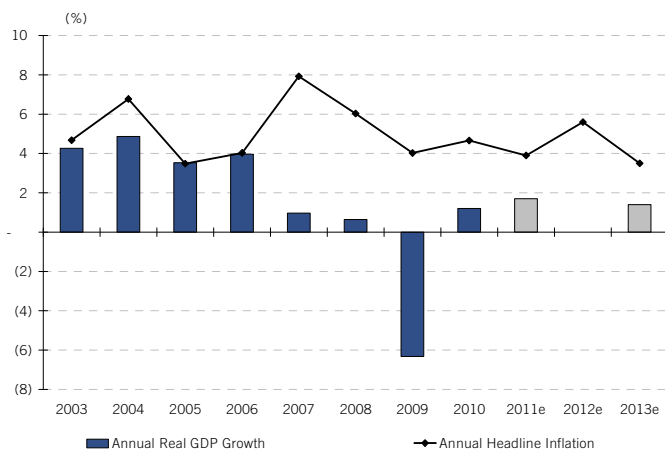
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 146. MSCI Trailing P/B



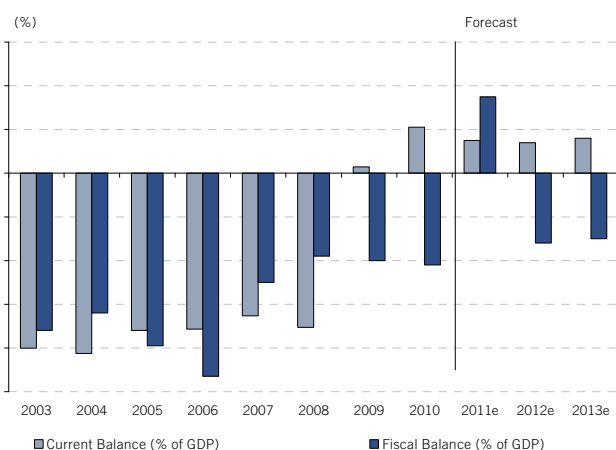
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 147. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 148. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 149. Key Companies (MSCI Index; end-quarter valuation data)

| Name                      | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                           |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 OTP BANK                | Financials                 | 4,115                      | 30.3%       | -6.9% | 30.3% | 12.7         | 0.7        | NA                  | 1.9       |
| 2 MOL MAGYAR OLAJ GAZIPAR | Energy                     | 3,473                      | 16.1%       | -4.4% | 16.1% | 10.3         | 1.2        | 3.6                 | 0.0       |
| 3 RICHTER GEDEON          | Health Care                | 2,390                      | 21.2%       | -5.4% | 21.2% | 14.2         | 1.4        | 9.5                 | 2.3       |
| 4 MAGYAR TELEKOM          | Telecommunication Services | 1,225                      | 21.9%       | -5.0% | 21.9% | 25.2         | 1.2        | 3.8                 | 8.7       |

Performance in USD. Source: MSCI and FactSet

## India – Underweight

Figure 150. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>6.3%</b> |
| Weight in Region           | 10.9%       |
| FF Mkt Cap (US\$, mn)      | 237.3       |
| <b>Sector Weights</b>      |             |
| Financials                 | 26.4%       |
| Information Technology     | 17.3%       |
| Energy                     | 11.5%       |
| Materials                  | 9.6%        |
| Industrials                | 6.0%        |
| Consumer Staples           | 8.0%        |
| Utilities                  | 5.0%        |
| Consumer Discretionary     | 8.6%        |
| Health Care                | 5.0%        |
| Telecommunication Services | 2.5%        |

Source: MSCI, FactSet and CIRA

MSCI India recovered strongly at the start of 2012 after significant underperformance in 2011. Even after the retreat in March, Q1 still recorded a positive return of 20% in dollar terms. Improved liquidity has driven the market higher as room for monetary easing from here on is expected to be better than in the rest of Asia, given that Indian policy was some way ahead in tightening during 2011. Foreigners have turned from net sellers in 2011 to net buyers, purchasing ~US\$9bil in total in Q1. However, the extent of monetary easing has been challenged recently, when oil prices marched higher, leading to upside risk to inflation. Our economists have trimmed their interest rate call from 100 bps of cuts to 50-75bps for 2012. On the fiscal front, the FY13 budget was little surprise on the back of a weak Congress position. Valuation looks fair to slightly cheap, with P/E and P/B trading at 0.2-0.4x standard deviations below their historical averages. In India, we like Banks, Tech and Infrastructure. **(Markus Rosgen)**

Figure 151. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population mn (2012e)       | 1,224.8             |
| GDP 2012e (US\$, bn)        | 2,072.0             |
| GDP/Capita (US\$)           | 1,692               |
| Real GDP Growth (2012e)     | 7.0%                |
| Inflation (WPI) (2012e)     | 7.0%                |
| Exports (2012e)             | 334.1               |
| Exports/GDP (2012e)         | 16.1%               |
| Top 3 Exports               | Eng, oil, gems      |
| CA Balance % of GDP (2012e) | -3.6%               |
| Fiscal Bal % of GDP (2012e) | -7.7%               |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 1,206               |
| MSCI Free Float (US\$, bn)  | 237                 |
| Avg Daily Volume (US\$, mn) | 3,152               |
| Local Index [B'berg Ticker] | Sensex 30 [SENSEX]  |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | BBB-                |
| Currency                    | Rupee (INR)         |
| Citi FX Forecast (2012e)    | 50.20               |
| Leader / Next Election      | M. Singh (May-2014) |
| Capital                     | New Delhi           |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 152. Flag



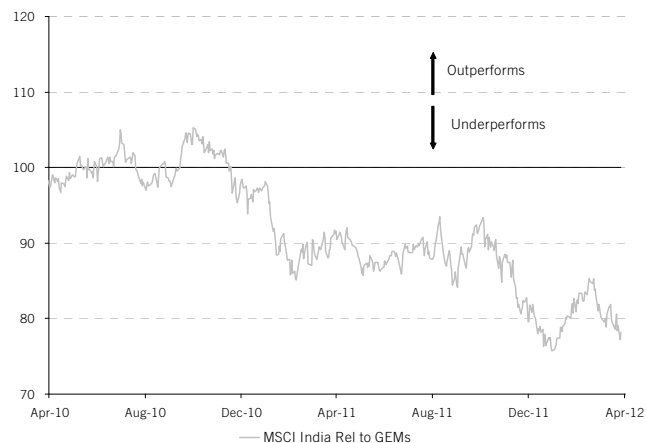
Source: US State Department

Figure 153. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 154. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 155. MSCI Forward P/E



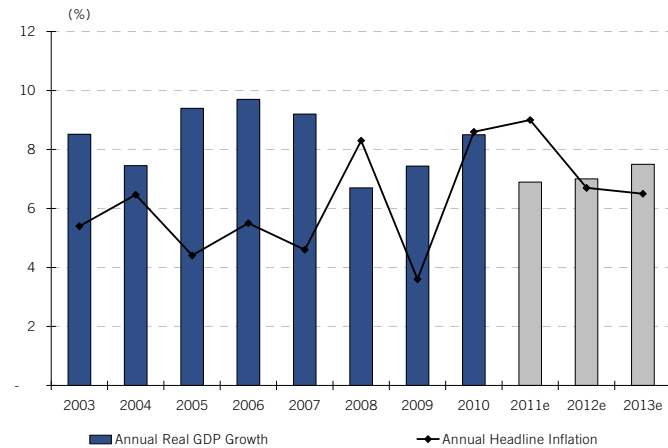
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 156. MSCI Trailing P/B



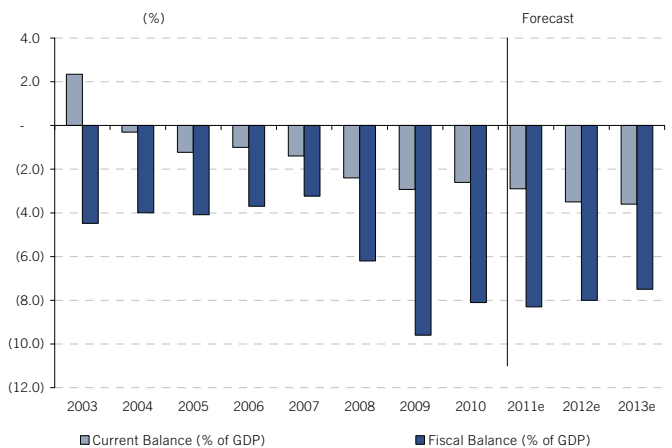
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 157. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 158. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 159. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                    | Sector                 | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|-------------------------|------------------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|    |                         |                        |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1  | INFOSYS                 | Information Technology | 24,229                     | 8.0%        | -4.4%  | 8.0%  | 20.9         | 6.3        | 18.8                | 1.2       |
| 2  | RELIANCE INDUSTRIES     | Energy                 | 19,297                     | 12.9%       | -12.0% | 12.9% | 11.7         | 1.6        | 7.3                 | 1.1       |
| 3  | HDFC BANK               | Financials             | 15,505                     | 27.0%       | -3.3%  | 27.0% | 24.9         | 4.7        | NA                  | 0.6       |
| 3  | HOUSING DEV FINANCE COR | Financials             | 14,376                     | 7.6%        | -2.3%  | 7.6%  | 20.1         | 4.7        | NA                  | 1.3       |
| 4  | TATA CONSULTANCY        | Information Technology | 10,777                     | 5.0%        | -8.0%  | 5.0%  | 22.6         | 9.3        | 20.7                | 1.5       |
| 5  | ITC                     | Consumer Staples       | 10,046                     | 17.5%       | 5.1%   | 17.5% | 30.1         | 10.7       | 26.8                | 1.2       |
| 6  | TATA MOTORS             | Consumer Discretionary | 8,143                      | 60.6%       | -2.3%  | 60.6% | 7.5          | 3.9        | 4.9                 | 1.5       |
| 7  | ICICI BANK              | Financials             | 7,451                      | 35.5%       | -5.5%  | 35.5% | 14.7         | 1.9        | NA                  | 1.6       |
| 8  | HINDUSTAN UNILEVER      | Consumer Staples       | 6,955                      | 4.9%        | 3.8%   | 4.9%  | 33.7         | 32.7       | 30.9                | 1.7       |
| 9  | LARSEN & TOUBRO         | Industrials            | 5,339                      | 37.2%       | -3.7%  | 37.2% | 17.0         | 3.2        | 12.9                | 1.1       |
| 10 | STATE BANK OF INDIA     | Financials             | 5,226                      | 35.0%       | -10.3% | 35.0% | 11.5         | 1.6        | NA                  | 1.4       |
| 11 | AXIS BANK               | Financials             | 5,103                      | 47.9%       | -6.4%  | 47.9% | 12.0         | 2.5        | NA                  | 1.2       |

Performance in USD. Source: MSCI and FactSet

## Indonesia – Underweight

Figure 160. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>2.7%</b> |
| Weight in Region           | 4.6%        |
| FF Mkt Cap (US\$, mn)      | 99.4        |
| <b>Sector Weights</b>      |             |
| Financials                 | 30.7%       |
| Energy                     | 10.8%       |
| Consumer Discretionary     | 16.2%       |
| Consumer Staples           | 12.1%       |
| Telecommunication Services | 9.4%        |
| Materials                  | 8.6%        |
| Utilities                  | 4.6%        |
| Industrials                | 5.9%        |
| Health Care                | 1.8%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

MSCI Indonesia was the worst performing market in Asia ex, only up by 4% in dollar terms in Q1, after being the only EM equity market to rise in 2011. Realization of the unjustified valuation premiums finally became a drag to its performance. MSCI Indonesia remains the most expensive market in the whole of GEMs at 3.8x P/B. The forthcoming fuel price hike will pose upside risk to inflation and policy makers, after cutting rates, have shifted their tone from dovish to more neutral. On the growth front, our economists believe that higher fuel prices will likely affect the growth outlook to a mild extent only as domestic fundamentals remain solid, while budgetary stimulus would serve as a counterbalance. The market's demanding valuations will continue to be a key drag. We remain Underweight in Indonesia in both our Asia ex and GEMs portfolios. **(Markus Rosgen)**

Figure 161. Snapshot

|                             |                   |
|-----------------------------|-------------------|
| <b>Macro</b>                |                   |
| Population mn (2012e)       | 243.5             |
| GDP 2012e (US\$, bn)        | 919.1             |
| GDP/Capita (US\$)           | 3,775             |
| Real GDP Growth (2012e)     | 6.2%              |
| Inflation (CPI) (2012e)     | 5.8%              |
| Exports (2012e)             | 223.5             |
| Exports/GDP (2012e)         | 24.3%             |
| Top 3 Exports               | Textile, gas, oil |
| CA Balance % of GDP (2012e) | -0.7%             |
| Fiscal Bal % of GDP (2012e) | -1.5%             |
| <b>Market</b>               |                   |
| Total Mkt Cap (US\$, bn)    | 415               |
| MSCI Free Float (US\$, bn)  | 99                |
| Avg Daily Volume (US\$, mn) | 392               |
| Local Index [B'berg Ticker] | Jakarta [JCI]     |
| <b>Other</b>                |                   |
| Credit Rating (S&P)         | BB+               |
| Currency                    | Rupiah (IDR)      |
| Citi FX Forecast (2012e)    | 9174              |
| Leader / Next Election      | S. Bambang (2014) |
| Capital                     | Jakarta           |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 162. Map



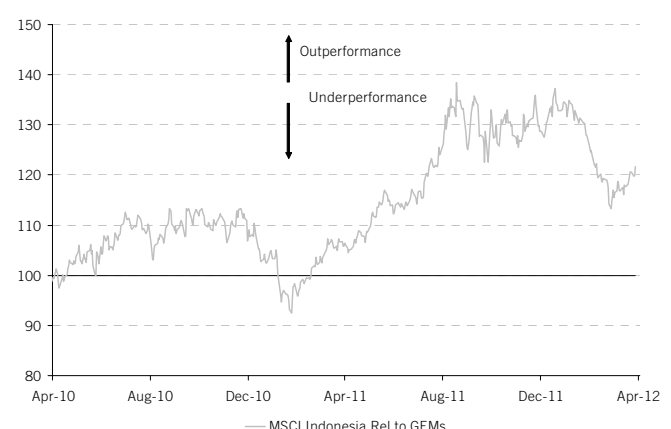
Source: US State Department

Figure 163. Local Index with Moving Averages



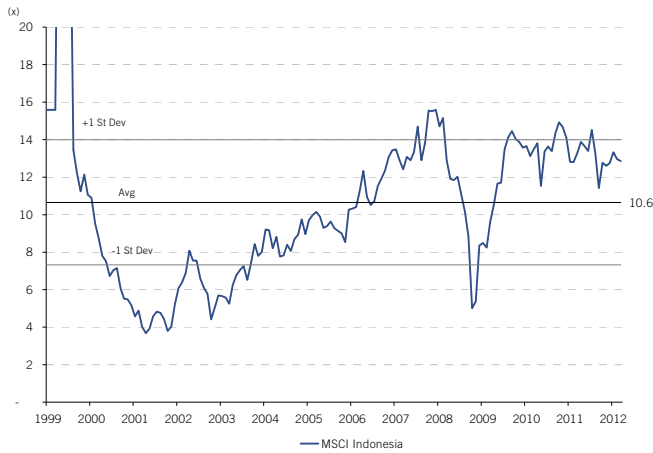
Source: Datastream and Citi Investment Research and Analysis

Figure 164. MSCI Index in USD Relative to GEMs



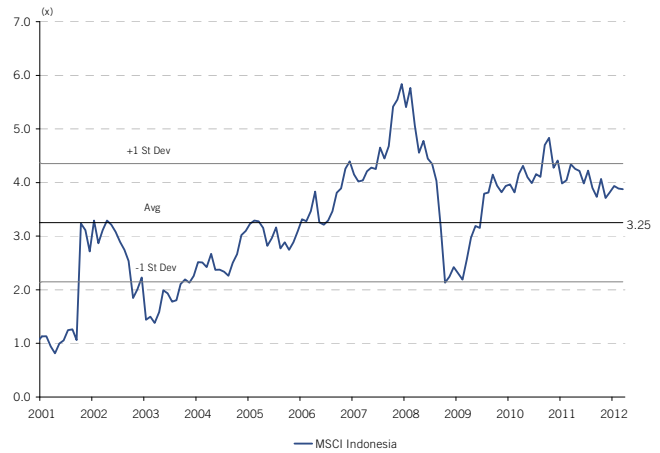
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 165. MSCI Forward P/E



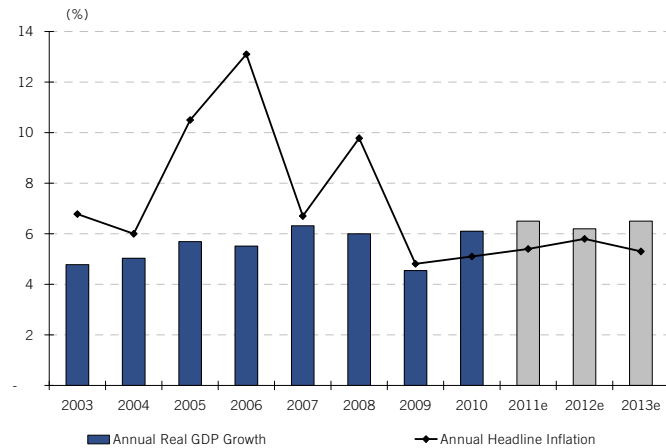
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 166. MSCI Trailing P/B



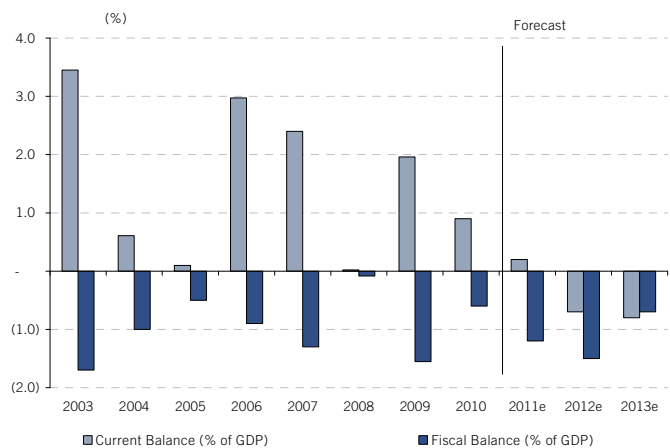
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 167. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 168. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 169. Key Companies (MSCI Index; end-quarter valuation data)

| Name                       | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----------------------------|----------------------------|----------------------------|-------------|-------|--------|--------------|------------|---------------------|-----------|
|                            |                            |                            | Last Q      | MTD   | YTD    |              |            |                     |           |
| 1 ASTRA INTERNATIONAL      | Consumer Discretionary     | 16,370                     | -0.9%       | 3.0%  | -0.9%  | 16.8         | 5.0        | 13.1                | 2.3       |
| 2 BANK CENTRAL ASIA        | Financials                 | 10,677                     | -0.8%       | 3.8%  | -0.8%  | 19.4         | 4.9        | NA                  | 1.4       |
| 3 BANK RAKYAT INDONESIA    | Financials                 | 8,353                      | 2.1%        | -0.6% | 2.1%   | 11.4         | 3.4        | NA                  | 1.3       |
| 4 TELEKOMUNIKASI INDONESIA | Telecommunication Services | 7,717                      | -1.5%       | -2.1% | -1.5%  | 12.4         | 3.0        | 5.4                 | 4.6       |
| 5 BANK MANDIRI             | Financials                 | 6,922                      | 0.6%        | 4.8%  | 0.6%   | 13.1         | 2.6        | NA                  | 2.0       |
| 6 UNITED TRACTORS          | Industrials                | 6,058                      | 24.2%       | 12.2% | 24.2%  | 20.9         | 4.7        | 13.2                | 1.4       |
| 7 PERUSAHAAN GAS NEGARA    | Utilities                  | 4,533                      | 18.7%       | 0.0%  | 18.7%  | 15.2         | 6.4        | 11.9                | 4.1       |
| 8 BUMI RESOURCES           | Energy                     | 4,004                      | 7.1%        | -5.4% | 7.1%   | 15.5         | 5.1        | 16.5                | 1.8       |
| 9 SEMEN GRESIK             | Materials                  | 3,973                      | 6.1%        | 7.4%  | 6.1%   | 18.8         | 5.5        | 16.7                | 2.5       |
| 10 GUDANG GARAM            | Consumer Staples           | 3,475                      | -12.0%      | -4.3% | -12.0% | 21.5         | 4.5        | 18.5                | 1.6       |
| 11 UNILEVER INDONESIA      | Consumer Staples           | 3,338                      | 5.5%        | 2.5%  | 5.5%   | NM           | 34.3       | 37.8                | 3.0       |
| 12 BANK NEGARA INDONESIA   | Financials                 | 3,230                      | 4.4%        | 4.5%  | 4.4%   | 12.8         | 2.0        | NA                  | 1.7       |

Performance in USD. Source: MSCI and FactSet

## Korea – Overweight

Figure 170. Country Breakdown

|                            |              |
|----------------------------|--------------|
| <b>Weight in GEMs</b>      | <b>15.1%</b> |
| Weight in Region           | 25.8%        |
| FF Mkt Cap (US\$, mn)      | 564.4        |
| <b>Sector Weights</b>      |              |
| Information Technology     | 33.3%        |
| Industrials                | 14.8%        |
| Financials                 | 14.1%        |
| Consumer Discretionary     | 16.4%        |
| Materials                  | 11.6%        |
| Consumer Staples           | 4.5%         |
| Telecommunication Services | 0.9%         |
| Energy                     | 2.8%         |
| Utilities                  | 1.1%         |
| Health Care                | 0.6%         |

Source: MSCI, FactSet and CIRA

MSCI Korea rose by 14.4% in Q1, outperforming both Asia ex. and GEMs, based on a liquidity rally. Expectations of the benefits of the ECB's LTRO facilities have overshadowed earnings disappointments. Foreign buying of equities has been strong at the start of the year but decelerated sharply into the quarter-end as the hype of the LTRO faded and markets focused back on earnings reports. Earnings revisions remain negative but showed an early sign of bottoming in March. The market has now likely discounted much of the earnings weakness as it remains the cheapest market in Asia, with its P/E being the lowest (except for China) amongst EM Asian countries and its P/B ratio being the lowest. On policy, the chance of cutting interest rates in Korea is low given that the central bank has turned more hawkish in light of the upside inflation risk arising from higher public utility charges and higher food and oil prices. On the political side, the construction sector tends to be a key beneficiary in an election year, both the General (April) and Presidential (December). We prefer Tech, banks and industrials in Korea. **(Markus Rosgen)**

Figure 171. Snapshot

|                             |                          |
|-----------------------------|--------------------------|
| <b>Macro</b>                |                          |
| Population mn (2012e)       | 50.0                     |
| GDP 2012e (US\$, bn)        | 1,173.5                  |
| GDP/Capita (US\$)           | 23,470                   |
| Real GDP Growth (2012e)     | 3.7%                     |
| Inflation (CPI) (2012e)     | 3.3%                     |
| Exports (2012e)             | 608.7                    |
| Exports/GDP (2012e)         | 51.9%                    |
| Top 3 Exports               | Elec, semis, chem        |
| CA Balance % of GDP (2012e) | 1.1%                     |
| Fiscal Bal % of GDP (2012e) | 1.4%                     |
| <b>Market</b>               |                          |
| Total Mkt Cap (US\$, bn)    | 1,103                    |
| MSCI Free Float (US\$, bn)  | 564                      |
| Avg Daily Volume (US\$, mn) | 7,445                    |
| Local Index [B'berg Ticker] | KOSPI [KOSPI]            |
| <b>Other</b>                |                          |
| Credit Rating (S&P)         | A                        |
| Currency                    | Won (KRW)                |
| Citi FX Forecast (2012e)    | 1126                     |
| Leader / Next Election      | Lee Myung-bak (Dec-2012) |
| Capital                     | Seoul                    |

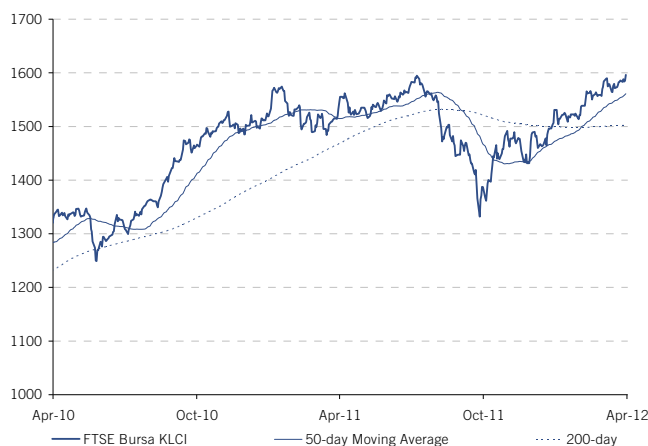
Source: MSCI, Bloomberg, EIU, CIRA

Figure 172. Map



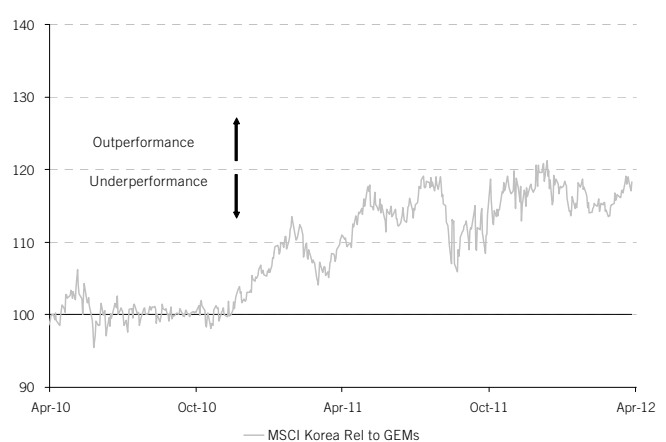
Source: US State Department

Figure 173. Local Index with Moving Averages



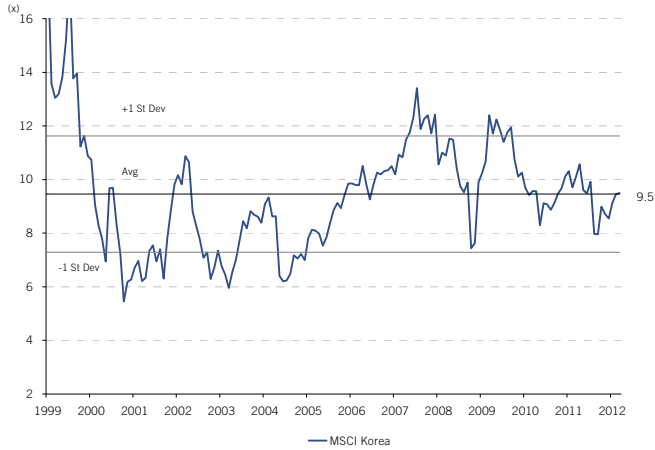
Source: Datastream and Citi Investment Research and Analysis

Figure 174. MSCI Index in USD Relative to GEMs



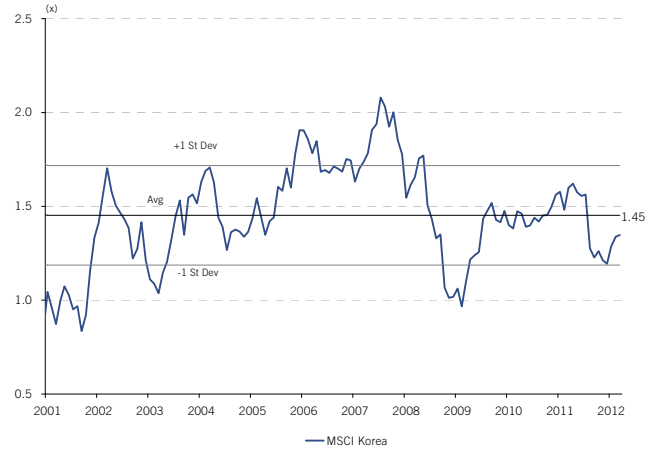
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 175. MSCI Forward P/E



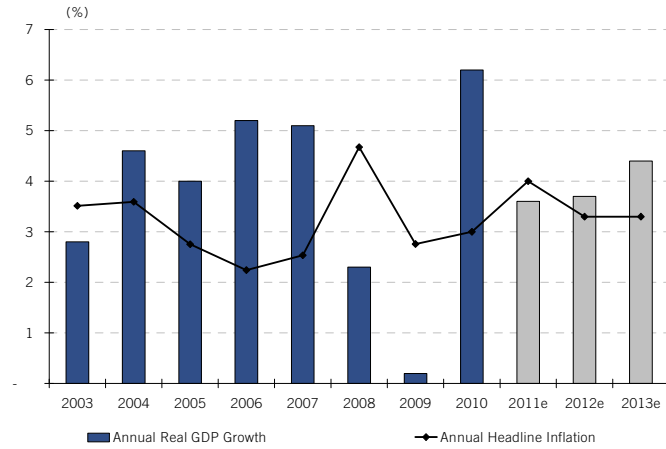
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 176. MSCI Trailing P/B



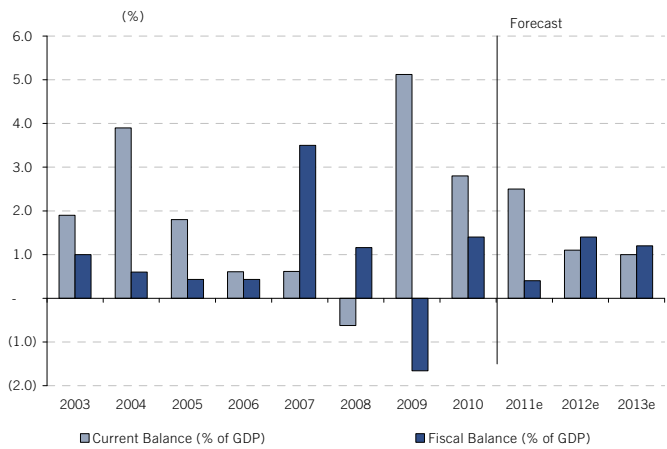
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 177. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 178. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 179. Key Companies (MSCI Index; end-quarter valuation data)

| Name                        | Sector                 | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|-----------------------------|------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                             |                        |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 SAMSUNG ELECTRONICS CO    | Information Technology | 124,315                    | 22.5%       | 4.4%  | 22.5% | 15.0         | 2.0        | 7.8                 | 0.4       |
| 2 HYUNDAI MOTOR CO          | Consumer Discretionary | 31,708                     | 11.2%       | 6.5%  | 11.2% | 9.0          | 1.8        | 5.8                 | 0.8       |
| 3 POSCO                     | Materials              | 21,930                     | 1.7%        | -9.8% | 1.7%  | 8.9          | 0.8        | 4.7                 | 2.6       |
| 4 HYUNDAI MOBIS             | Consumer Discretionary | 17,230                     | -0.2%       | -0.7% | -0.2% | 9.6          | 2.1        | 8.2                 | 0.6       |
| 5 SHINHAN FINANCIAL GROUP   | Financials             | 16,479                     | 11.9%       | -0.2% | 11.9% | 8.0          | 0.8        | NA                  | 1.7       |
| 6 KIA MOTORS CORP           | Consumer Discretionary | 15,703                     | 13.0%       | 3.5%  | 13.0% | 8.5          | 2.3        | 6.4                 | 0.8       |
| 7 LG CHEM                   | Materials              | 15,149                     | 18.5%       | -8.3% | 18.5% | 12.5         | 2.9        | 9.3                 | 1.1       |
| 8 SAMSUNG ELECTRONICS PRE   | Information Technology | 14,419                     | 21.2%       | 12.0% | 21.2% | 9.3          | 1.3        | 4.9                 | 0.7       |
| 9 HYNIX SEMICONDUCTOR       | Information Technology | 13,437                     | 35.5%       | -4.4% | 35.5% | NM           | 1.9        | 5.2                 | 0.0       |
| 10 KB FINANCIAL GROUP       | Financials             | 13,395                     | 15.8%       | -0.9% | 15.8% | 9.1          | 0.7        | NA                  | 1.7       |
| 11 HYUNDAI HEAVY INDUSTRIES | Industrials            | 11,861                     | 27.2%       | -6.5% | 27.2% | 6.0          | 1.2        | 4.5                 | 1.2       |
| 12 NHN CORP                 | Information Technology | 9,387                      | 25.3%       | 9.9%  | 25.3% | 23.1         | 7.5        | 19.8                | 0.2       |

Performance in USD. Source: MSCI and FactSet

## Malaysia – Underweight

Figure 180. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>3.3%</b> |
| Weight in Region           | 5.7%        |
| FF Mkt Cap (US\$, mn)      | 123.9       |
| <b>Sector Weights</b>      |             |
| Financials                 | 30.7%       |
| Industrials                | 15.7%       |
| Consumer Staples           | 11.9%       |
| Consumer Discretionary     | 11.7%       |
| Telecommunication Services | 11.7%       |
| Utilities                  | 11.0%       |
| Materials                  | 5.1%        |
| Energy                     | 2.2%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

MSCI Malaysia was the second worst performing market in EM Asia in Q1, up by only 7.9% in dollar terms, reflecting its low-beta defensive nature. Recent indicators point to a growth slowdown in the export sector, but domestic demand is holding up. Election news and policy actions have increasingly taken the attention of the market as elections are now widely expected in early June. Despite easing inflation, the BNM now sounds a less dovish tone. Our economists maintain their call for BNM to keep the OPR at 3% through 2012. Earnings revisions have improved and are now right on their historical averages. Valuations are similarly close to their historical averages. We expect Malaysia to continue to underperform in the 'up' market that we expect. **(Markus Rosgen)**

Figure 181. Snapshot

|                             |                       |
|-----------------------------|-----------------------|
| <b>Macro</b>                |                       |
| Population mn (2012e)       | 30.0                  |
| GDP 2012e (US\$, bn)        | 302.5                 |
| GDP/Capita (US\$)           | 10,083                |
| Real GDP Growth (2012e)     | 5.0%                  |
| Inflation (CPI) (2012e)     | 2.5%                  |
| Exports (2012e)             | 249.4                 |
| Exports/GDP (2012e)         | 82.4%                 |
| Top 3 Exports               | Elec, chem, palm oil  |
| CA Balance % of GDP (2012e) | 10.5%                 |
| Fiscal Bal % of GDP (2012e) | -5.0%                 |
| <b>Market</b>               |                       |
| Total Mkt Cap (US\$, bn)    | 429                   |
| MSCI Free Float (US\$, bn)  | 124                   |
| Avg Daily Volume (US\$, mn) | 536                   |
| Local Index [B'berg Ticker] | FTSE BursaKL(FBMKLCI) |
| <b>Other</b>                |                       |
| Credit Rating (S&P)         | A-                    |
| Currency                    | Ringgit (MYR)         |
| Citi FX Forecast (2012e)    | 3.03                  |
| Leader / Next Election      | Mohd Najib (2H 2012)  |
| Capital                     | Kuala Lumpur          |

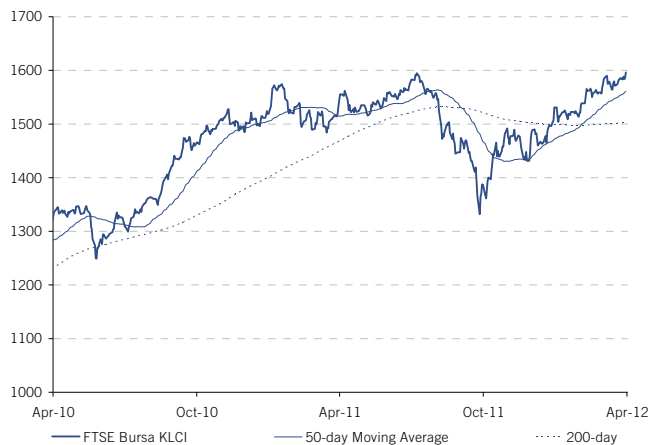
Source: MSCI, Bloomberg, EIU, CIRA

Figure 182. Map



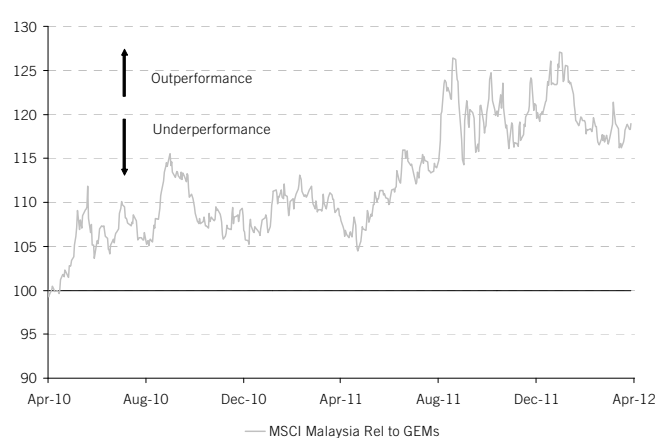
Source: US State Department

Figure 183. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

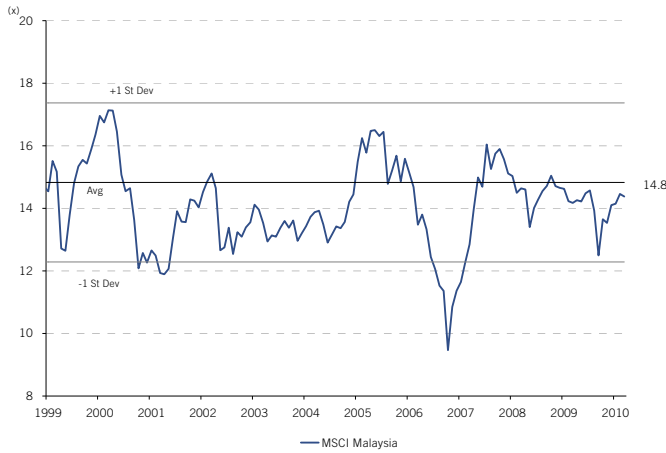
Figure 184. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

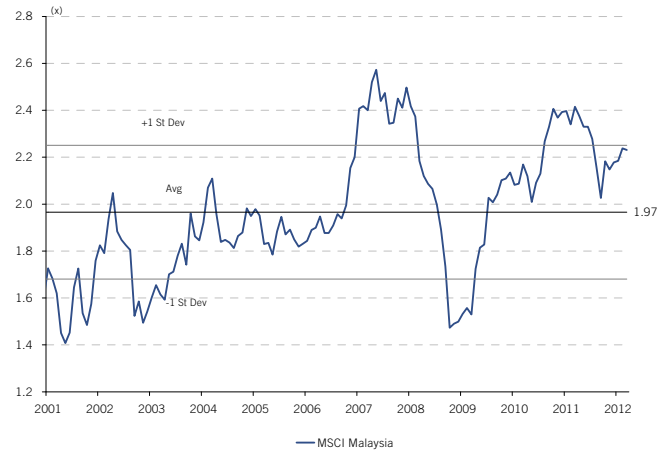


Figure 185. MSCI Forward P/E



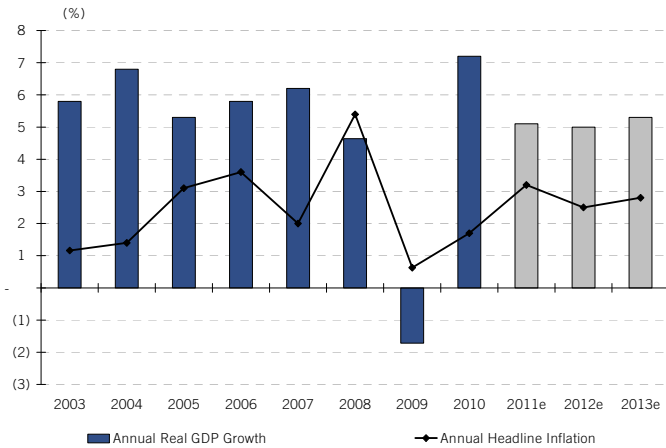
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 186. MSCI Trailing P/B



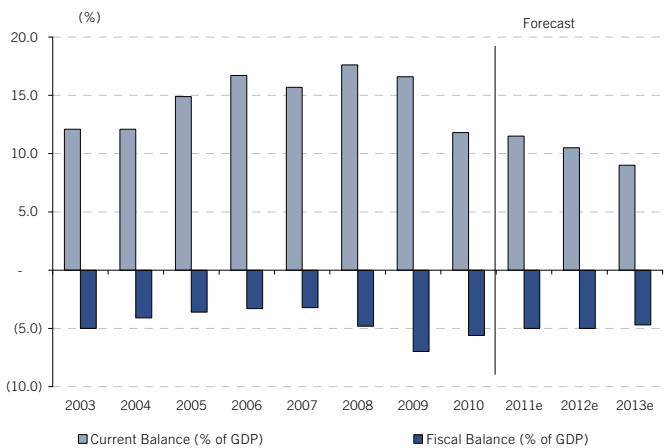
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 187. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 188. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 189. Key Companies (MSCI Index; end-quarter valuation data)

| Name                      | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                           |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 BUMIPUTRA-COMMERCE HLI  | Financials                 | 12,128                     | 7.0%        | 5.0%  | 7.0%  | 14.2         | 2.2        | NA                  | 2.9       |
| 2 MALAYAN BANKING         | Financials                 | 9,744                      | 7.0%        | -0.9% | 7.0%  | 13.9         | 2.0        | NA                  | 5.1       |
| 3 SIME DARBY              | Industrials                | 8,598                      | 9.6%        | -1.7% | 9.6%  | 13.2         | 2.4        | 10.7                | 3.3       |
| 4 GENTING                 | Consumer Discretionary     | 7,230                      | 2.0%        | 0.0%  | 2.0%  | 14.0         | 2.3        | 9.4                 | 0.6       |
| 5 TENAGA NASIONAL         | Utilities                  | 5,727                      | 12.8%       | 0.1%  | 12.8% | NM           | 1.2        | 9.7                 | 0.5       |
| 6 IOI CORP                | Consumer Staples           | 5,597                      | 2.7%        | -3.3% | 2.7%  | 16.8         | 2.8        | 14.9                | 3.0       |
| 7 PETRONAS CHEMICALS GROU | Materials                  | 5,280                      | 12.5%       | -1.6% | 12.5% | 15.2         | 2.7        | 12.1                | 1.2       |
| 8 PUBLIC BANK FGN         | Financials                 | 4,745                      | 7.6%        | -1.6% | 7.6%  | 13.8         | 3.2        | NA                  | 3.5       |
| 9 MAXIS BHD               | Telecommunication Services | 4,473                      | 15.0%       | 0.6%  | 15.0% | 18.4         | 5.7        | 12.6                | 6.6       |
| 10 AXIATA GROUP           | Telecommunication Services | 4,311                      | 4.7%        | -1.7% | 4.7%  | 18.8         | 2.3        | 8.0                 | 0.8       |
| 11 DIGI.COM               | Telecommunication Services | 4,122                      | 8.3%        | -1.2% | 8.3%  | 25.2         | 22.4       | 13.0                | 4.3       |
| 12 KUALA LUMPUR KEPONG    | Consumer Staples           | 3,857                      | 12.1%       | 2.7%  | 12.1% | 16.3         | 3.6        | NA                  | 3.5       |

Performance in USD. Source: MSCI and FactSet

## Mexico – Underweight

We have added weight to Mexico but retain it as an Underweight in both a Latin American and GEMs portfolio. The outlook for economic and earnings growth has improved in recent weeks. However, we are apprehensive to commit to an upgrade ahead of the July 1 election, although this is the PRI's election to lose. Reforms in Mexico are anything but a done deal. Indeed, if structural reforms move forward – a long term positive (especially, the partial privatization of Pemex were to occur) – this could still be disruptive short term. The impact of an improving US economic outlook on the Mexican market has been reflected in Mexico's outperformance in March. There could be room for short term disappointment on this front (although our US Strategist Tobias Levkovich's secular "Raging Bull" thesis does benefit Mexico in the long term). We now see Banxico keeping rates on hold at 4.5% until March 2013 and we expect modest peso appreciation to MXN 12.20 by year-end. Mexico continues to screen poorly on our multi-factor model, although it has moved slightly up the ranks. Finally, drug-related violence continues. **(Jason Press)**

Figure 190. Country Breakdown

|                       |             |
|-----------------------|-------------|
| <b>Weight in GEMs</b> | <b>4.7%</b> |
| Weight in Region      | 20.1%       |
| FF Mkt Cap (US\$, mn) | 174.7       |
| <b>Sector Weights</b> |             |
| Telecom               | 28.1%       |
| Consumer Staples      | 29.6%       |
| Materials             | 19.0%       |
| Consumer Disc         | 11.6%       |
| Financials            | 7.3%        |
| Industrials           | 4.5%        |
| Energy                | 0.0%        |
| Health Care           | 0.0%        |
| Info Tech             | 0.0%        |
| Utilities             | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 191. Snapshot

|                             |                        |
|-----------------------------|------------------------|
| <b>Macro</b>                |                        |
| Population mn (2012e)       | 115.1                  |
| GDP 2012e (US\$, bn)        | 1,185.6                |
| GDP/Capita (US\$)           | 10,301                 |
| Real GDP Growth (2012e)     | 3.3%                   |
| Inflation (CPI) (2012e)     | 4.1%                   |
| Exports (2012e)             | 372.1                  |
| Exports/GDP (2012e)         | 31.4%                  |
| Top 3 Exports               | Oil, manuf, agric      |
| CA Balance % of GDP (2012e) | -1.6%                  |
| Fiscal Bal % of GDP (2012e) | -2.2%                  |
| <b>Market</b>               |                        |
| Total Mkt Cap (US\$, bn)    | 481                    |
| MSCI Free Float (US\$, bn)  | 175                    |
| Avg Daily Volume (US\$, mn) | 455                    |
| Local Index [B'berg Ticker] | Bolsa [MEXBOL]         |
| <b>Other</b>                |                        |
| Credit Rating (S&P)         | BBB                    |
| Currency                    | Peso (MXN)             |
| Citi FX Forecast (2012e)    | 12.3                   |
| Leader / Next Election      | F Calderon (July 2012) |
| Capital                     | Mexico City (D.F.)     |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 192. Map



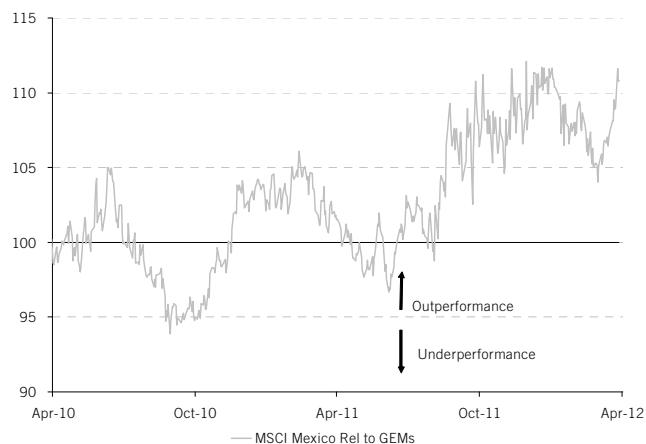
Source: US State Department

Figure 193. Local Index with Moving Averages



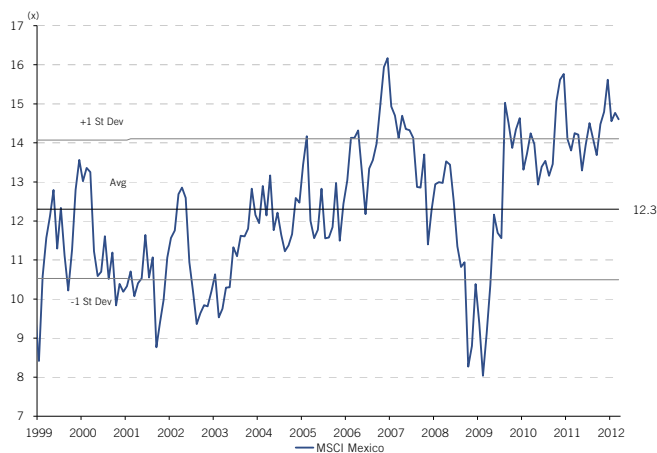
Source: Datastream and Citi Investment Research and Analysis

Figure 194. MSCI Index in USD Relative to GEMs



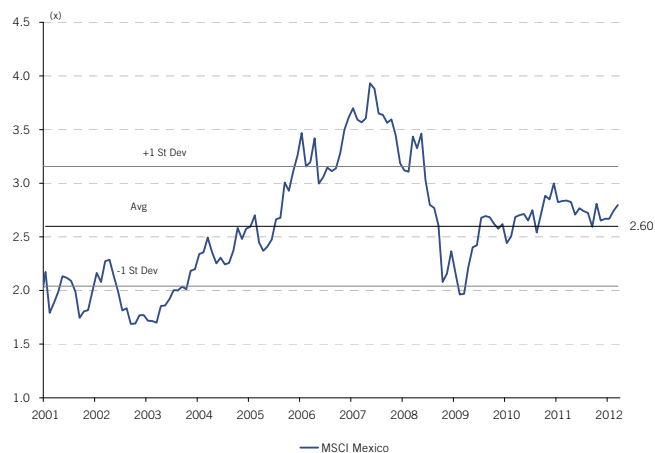
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 195. MSCI Forward P/E



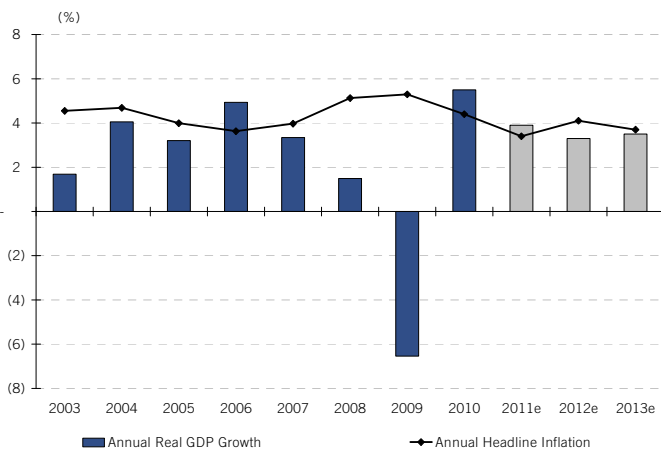
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 196. MSCI Trailing P/B



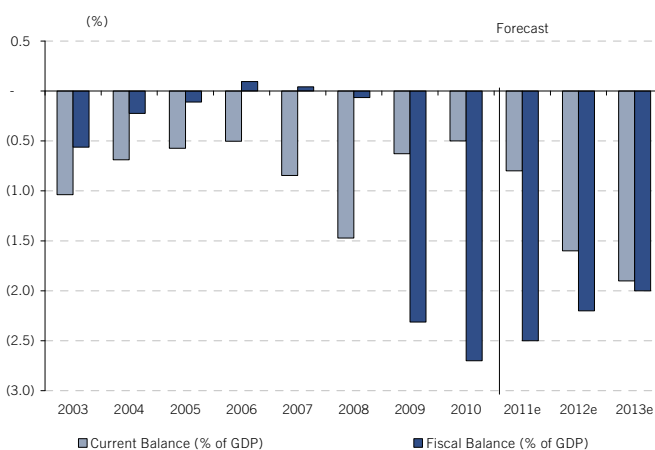
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 197. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 198. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 199. Key Companies (MSCI Index; end-quarter valuation data)

| Name                    | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|-------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                         |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 AMERICA MOVIL L       | Telecommunication Services | 49,326                     | 9.7%        | 2.9%  | 9.7%  | 14.8         | 4.3        | 6.9                 | 1.1       |
| 2 WALMART MEXICO V      | Consumer Staples           | 20,892                     | 22.7%       | 7.3%  | 22.7% | 34.3         | 5.7        | 25.8                | 1.0       |
| 3 FEMSA UNIT UBD        | Consumer Staples           | 15,993                     | 18.3%       | 11.3% | 18.3% | 24.9         | 2.8        | 17.0                | 1.3       |
| 4 GRUPO MEXICO B        | Materials                  | 12,049                     | 20.6%       | -0.5% | 20.6% | 10.5         | 2.7        | 8.4                 | 2.0       |
| 5 GRUPO TELEvisa CPO    | Consumer Discretionary     | 10,876                     | 0.4%        | -1.6% | 0.4%  | 23.5         | 3.1        | 11.3                | 0.6       |
| 6 CEMEX CPO             | Materials                  | 8,157                      | 49.9%       | 4.3%  | 49.9% | NM           | 0.6        | NM                  | 0.0       |
| 7 GRUPO FIN BANORTE O   | Financials                 | 7,243                      | 46.7%       | 8.3%  | 46.7% | 15.6         | 1.9        | NA                  | 0.9       |
| 8 GRUPO ELEKTRA         | Consumer Discretionary     | 6,824                      | -5.2%       | 7.5%  | -5.2% | 9.8          | 4.4        | 9.2                 | 0.2       |
| 9 INDUSTRIAS PENOLES CP | Materials                  | 6,737                      | 10.5%       | -2.8% | 10.5% | 19.3         | 6.0        | 14.6                | 1.4       |
| 10 GRUPO MODELO C       | Consumer Staples           | 4,415                      | 9.8%        | 6.0%  | 9.8%  | 24.2         | 3.5        | 17.6                | 2.5       |
| 11 ALFA                 | Industrials                | 4,216                      | 31.9%       | 7.1%  | 31.9% | 18.4         | 2.7        | 8.3                 | 1.4       |
| 12 GRUPO FIN INBURSA O  | Financials                 | 4,117                      | 12.0%       | 5.3%  | 12.0% | 29.6         | 2.4        | NA                  | 1.1       |

Performance in USD. Source: MSCI and FactSet

## Morocco – Underweight

The small Moroccan equity market has been a relative underperformer throughout the 1Q12 bounce in EM, making only modest gains and being the worst performer within GEMs in Q1. Morocco has historically been a defensive market, most notably in the global equity downturn of 2008-9 (although this was less evident in the 2011 sell-off). Morocco has probably been the North African country that was least destabilized by the unrest of the Arab Spring, with the monarchy introducing targeted political reforms as well as increases in investment spending, subsidies and public sector pay along with efforts to boost job growth. Morocco's equity market continues to trade at a premium to GEMs on most valuation metrics, which makes it unappealing for most EM investors given also its small size and illiquidity. (Andrew Howell)

Figure 200. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.1%</b> |
| Weight in Region           | 0.7%        |
| FF Mkt Cap (US\$, mn)      | 5.1         |
| <b>Sector Weights</b>      |             |
| Telecommunication Services | 54.7%       |
| Financials                 | 45.3%       |
| Industrials                | 0.0%        |
| Energy                     | 0.0%        |
| Materials                  | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Consumer Staples           | 0.0%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 201. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population (mn)             | 32.4                |
| GDP 2011e (US\$, bn)        | 75.1                |
| GDP/Capita (US\$)           | 2,318               |
| Real GDP Growth 2010e       | 3.2%                |
| Inflation (CPI) 2010e       | 2.0%                |
| Exports (2010)              |                     |
| Exports/GDP (2010)          | 35.8%               |
| Top 3 Exports               | Textile, acid, elec |
| CA Balance % of GDP (2011e) | n/a                 |
| Fiscal Bal % of GDP (2011e) | n/a                 |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 60.4                |
| MSCI Free Float (US\$, bn)  | 5.1                 |
| Avg Daily Volume (US\$, mn) | n/a                 |
| Local Index [B'berg Ticker] | CFG 25 [MCSINDEX]   |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | BBB-                |
| Currency                    | Dirham (MAD)        |
| Citi FX Forecast (2012e)    | n/a                 |
| Leader / Next Election      | Mohammed VI (16)    |
| Capital                     | Rabat               |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 202. Map



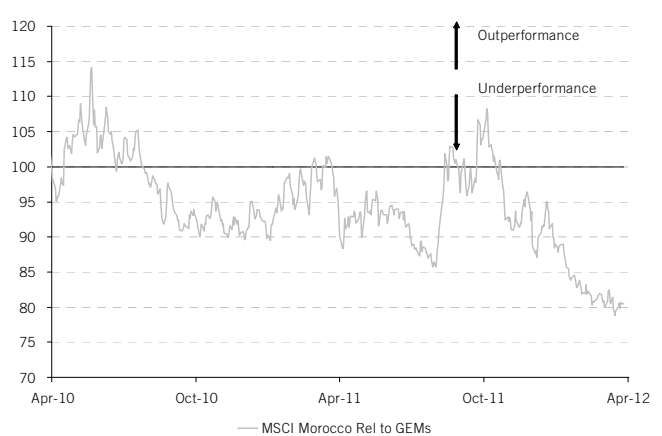
Source: US State Department

Figure 203. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 204. MSCI Index in USD Relative to GEMs



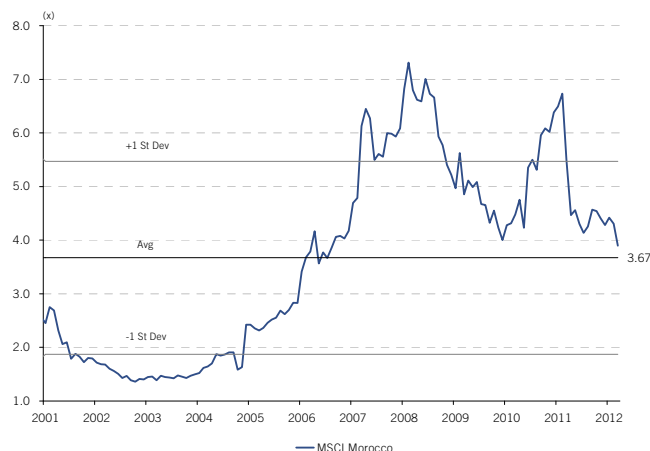
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 205. MSCI Forward P/E



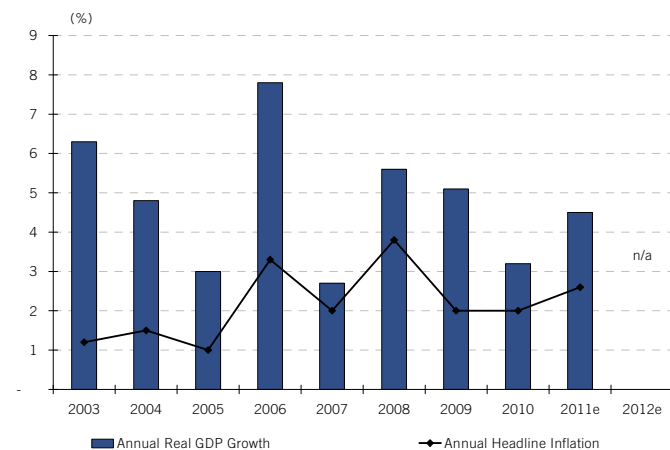
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 206. MSCI Trailing P/B



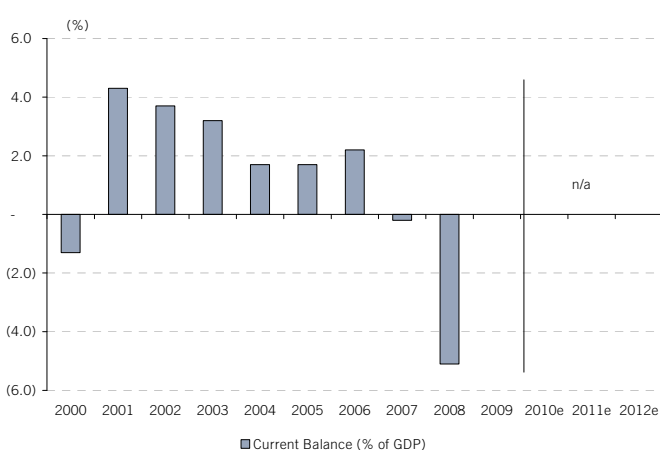
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 207. GDP Growth and Inflation



Source: National Sources, IMF and Citi Investment Research and Analysis

Figure 208. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 209. Key Companies (MSCI Index; end-quarter valuation data)

|   | Name                   | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |      | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---|------------------------|----------------------------|----------------------------|-------------|-------|------|--------------|------------|---------------------|-----------|
|   |                        |                            |                            | Last Q      | MTD   | YTD  |              |            |                     |           |
| 1 | MAROC TELECOM          | Telecommunication Services | 2,852                      | 2.6%        | -2.9% | 2.6% | 14.7         | 6.7        | 9.2                 | 7.8       |
| 2 | ATTIJARIWABA BANK      | Financials                 | 1,243                      | 5.1%        | -3.9% | 5.1% | 15.6         | 2.6        | NA                  | 2.2       |
| 3 | DOUJA PROM GROUPE ADDO | Financials                 | 1,097                      | 6.8%        | -1.1% | 6.8% | 15.4         | 2.5        | NA                  | 2.7       |

Performance in USD. Source: MSCI and FactSet

## Peru – Overweight

We are Overweight in Peru within both GEMs and Latin America. Political risk has diminished; President Ollanta Humala has thus far proved to be a "sheep in wolf's clothing". His business-friendly policies include the announcement of plans to partially privatize the Energy and Utility sectors. Also, conservative Luis Miguel Castilla remains Finance Minister. One concern for the mining sector is that talks with local protesters continue, which is a reason for preferring domestic stocks, alongside our analysts' belief that commodity prices and Materials margins are in structural decline. GDP growth remains resilient such that the central bank may not need to pursue rate cuts. However, the financing of Humala's plans to expand social benefits remains a key uncertainty; a tax plan focused on greater efficiency and collection is expected soon. If Humala's policy (as opposed to his rhetoric) shifts away from centrism, we would become more concerned. On this point, labor market reform may become a hot topic later this year. Finally, valuations remain below historical averages, based on our composite valuation metric. **(Jason Press)**

Figure 210. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.6%</b> |
| Weight in Region           | 2.8%        |
| FF Mkt Cap (US\$, mn)      | 24.0        |
| <b>Sector Weights</b>      |             |
| Materials                  | 63.4%       |
| Financials                 | 36.6%       |
| Energy                     | 0.0%        |
| Industrials                | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Consumer Staples           | 0.0%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |
| Telecommunication Services | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 211. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population mn (2012e)       | 29.7                 |
| GDP 2012e (US\$, bn)        | 196.2                |
| GDP/Capita (US\$)           | 6,606                |
| Real GDP Growth (2012e)     | 5.5%                 |
| Inflation (CPI) (2012e)     | 3.5%                 |
| Exports (2012e)             | 47.0                 |
| Exports/GDP (2012e)         | 24.0%                |
| Top 3 Exports               | Copp, gold, fishmeal |
| CA Balance % of GDP (2012e) | -2.4%                |
| Fiscal Bal % of GDP (2012e) | 1.2%                 |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 104.4                |
| MSCI Free Float (US\$, bn)  | 24                   |
| Avg Daily Volume (US\$, mn) | 16                   |
| Local Index [B'berg Ticker] | Lima Gen (IGBVL)     |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | BBB                  |
| Currency                    | Nuevo Sol (PEN)      |
| Citi FX Forecast (2012e)    | 2.70                 |
| Leader / Next Election      | O. Humala (2016)     |
| Capital                     | Lima                 |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 212. Map



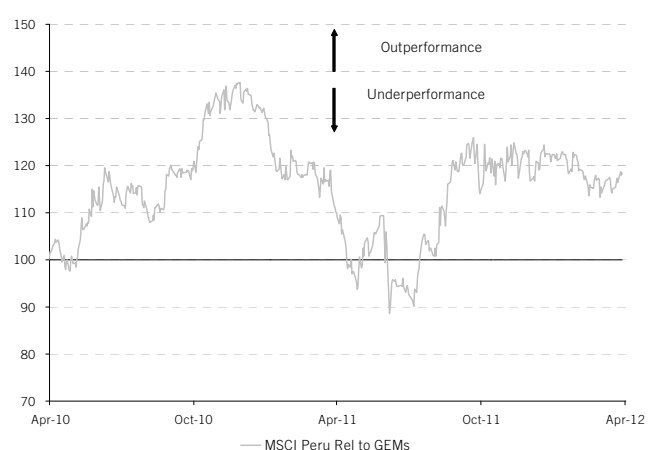
Source: US State Department

Figure 213. Local Index with Moving Averages



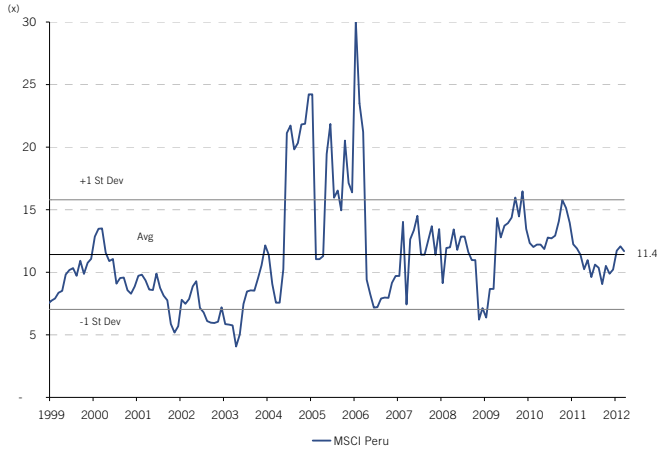
Source: Datastream and Citi Investment Research and Analysis

Figure 214. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 215. MSCI Forward P/E



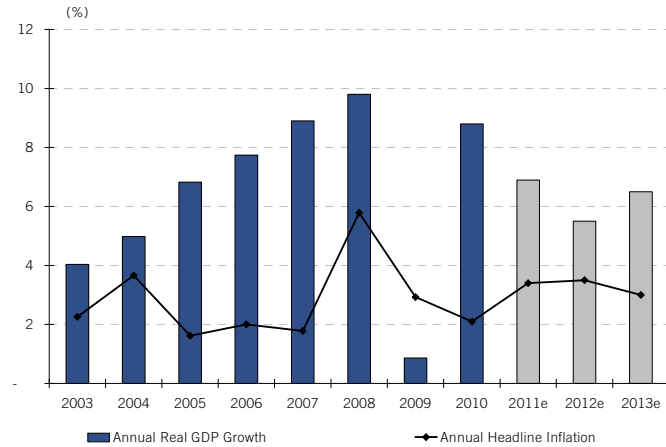
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 216. MSCI Trailing P/B



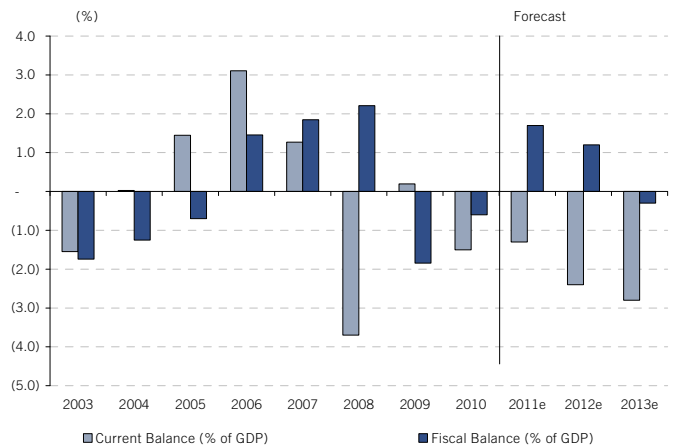
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 217. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 218. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 219. Key Companies (MSCI Index; end-quarter valuation data)

| Name                     | Sector     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|--------------------------|------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                          |            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 CREDICORP              | Financials | 8,937                      | 20.4%       | 7.3%  | 20.4% | 14.5         | 3.0        | NA                  | 1.7       |
| 2 BUENAVENTURA MINAS ADR | Materials  | 7,672                      | 5.1%        | 0.4%  | 5.1%  | 11.8         | 3.2        | 10.9                | 1.4       |
| 3 SOUTHERN COPPER CORP   | Materials  | 5,391                      | 6.2%        | -1.4% | 6.2%  | 11.5         | 6.7        | 10.3                | 6.5       |
| 4 VOLCAN COMPANIA MINERA | Materials  | 2,204                      | 25.1%       | 4.7%  | 25.1% | 11.6         | 3.2        | 9.7                 | 3.2       |

Performance in USD. Source: MSCI and FactSet

## Philippines – Underweight

MSCI Philippines was up 20% in dollar terms in Q1, extending its outperformance from last year. Foreign buying continued into the start of 2012 but momentum has since softened. Foreigners have actually turned into net sellers of equities in March. Philippines' outperformance has driven valuations to become the highest in Asia ex for the MSCI country index on 2012 P/E (16.6x forward earnings) and the second highest on P/B at 2.9x (after Indonesia). The growth outlook has improved on the back of an easing jobless rate, rising utilization rate and fiscal stimulus spending. An easing in downside risks to growth, along with higher oil prices, suggests a 'pause' in the campaign of rate cuts after the recent 50bps rate reduction. Earnings revisions have turned positive. However, further outperformance should be limited by the market's stretched valuations. We remain Underweight. **(Markus Rosgen)**.

Figure 220. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>0.8%</b> |
| Weight in Region           | 1.3%        |
| FF Mkt Cap (US\$, mn)      | 28.5        |
| <b>Sector Weights</b>      |             |
| Financials                 | 34.6%       |
| Utilities                  | 14.5%       |
| Telecommunication Services | 12.4%       |
| Industrials                | 26.0%       |
| Consumer Staples           | 0.0%        |
| Consumer Discretionary     | 3.8%        |
| Energy                     | 0.0%        |
| Materials                  | 0.0%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 221. Snapshot

|                             |                        |
|-----------------------------|------------------------|
| <b>Macro</b>                |                        |
| Population mn (2012e)       | 97.8                   |
| GDP 2012e (US\$, bn)        | 252.1                  |
| GDP/Capita (US\$)           | 2,578                  |
| Real GDP Growth (2012e)     | 4.0%                   |
| Inflation (CPI) (2012e)     | 3.5%                   |
| Exports (2012e)             | 50.7                   |
| Exports/GDP (2012e)         | 20.1%                  |
| Top 3 Exports               | Elec, mineral, textile |
| CA Balance % of GDP (2012e) | 2.0%                   |
| Fiscal Bal % of GDP (2012e) | -2.0%                  |
| <b>Market</b>               |                        |
| Total Mkt Cap (US\$, bn)    | 184                    |
| MSCI Free Float (US\$, bn)  | 29                     |
| Avg Daily Volume (US\$, mn) | 154                    |
| Local Index [B'berg Ticker] | PSEi [PCOMP]           |
| <b>Other</b>                |                        |
| Credit Rating (S&P)         | BB                     |
| Currency                    | Peso (PHP)             |
| Citi FX Forecast (2012e)    | 42.7                   |
| Leader / Next Election      | B.Aquino III (2016)    |
| Capital                     | Manila                 |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 222. Map



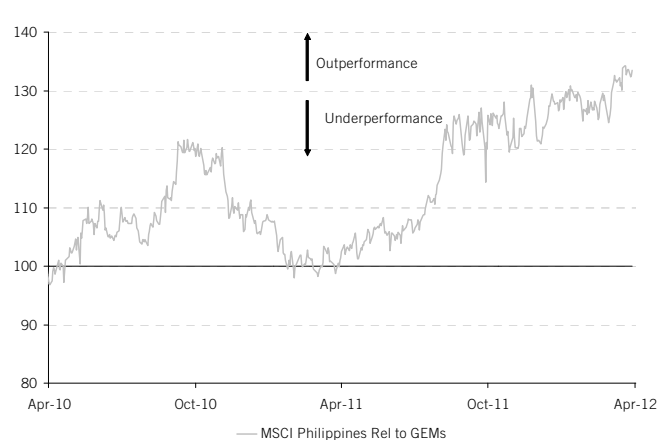
Source: US State Department

Figure 223. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 224. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

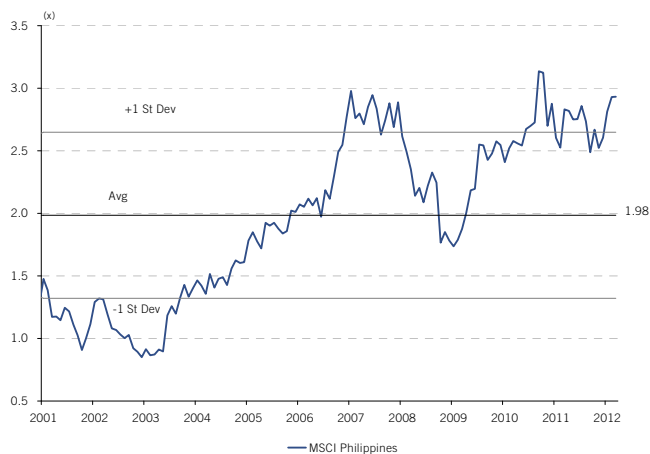


Figure 225. MSCI Forward P/E



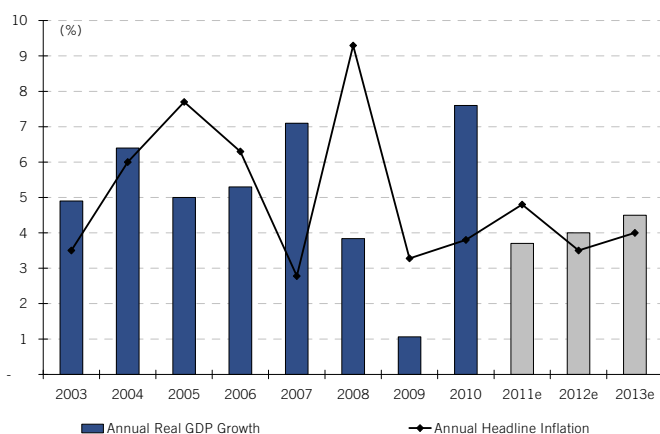
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 226. MSCI Trailing P/B



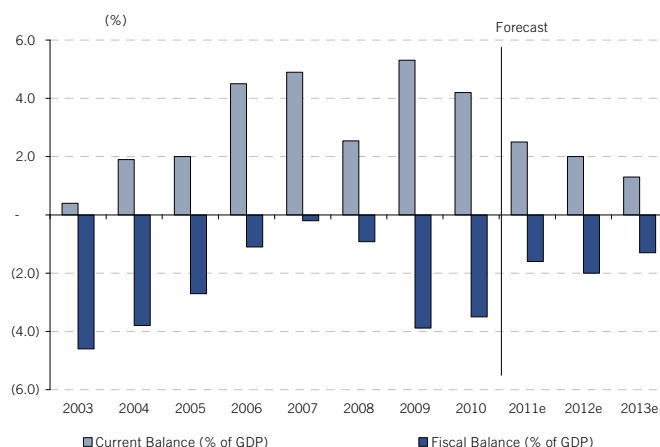
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 227. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 228. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 229. Key Companies (MSCI Index; end-quarter valuation data)

| Name                      | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                           |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 SM INVESTMENTS          | Industrials                | 2,823                      | 15.7%       | 3.1%  | 15.7% | 19.0         | 2.6        | 14.2                | 1.4       |
| 2 PHIL LONG DISTANCE TEL  | Telecommunication Services | 2,697                      | 8.5%        | -5.9% | 8.5%  | 18.3         | 3.9        | 9.7                 | 5.2       |
| 3 AYALA LAND              | Financials                 | 2,518                      | 39.8%       | 0.8%  | 39.8% | NM           | 4.6        | 30.9                | 0.9       |
| 4 ABOITIZ EQUITY VENTURES | Industrials                | 2,255                      | 27.5%       | 4.6%  | 27.5% | 12.3         | 3.9        | 10.4                | 3.2       |
| 5 SM PRIME HOLDINGS       | Financials                 | 2,188                      | 29.8%       | 2.9%  | 29.8% | 25.9         | 3.7        | 18.2                | 1.6       |
| 6 MANILA ELECTRIC CO      | Utilities                  | 1,720                      | 8.3%        | -1.0% | 8.3%  | 25.3         | 4.7        | 16.3                | 2.2       |
| 7 AYALA CORP              | Financials                 | 1,641                      | 33.5%       | 1.0%  | 33.5% | 20.1         | 2.2        | 13.5                | 1.0       |
| 8 ABOITIZ POWER           | Utilities                  | 1,453                      | 15.8%       | 5.5%  | 15.8% | 11.0         | 3.9        | 9.6                 | 3.9       |
| 9 BDO UNIBANK             | Financials                 | 1,407                      | 14.6%       | 0.6%  | 14.6% | 17.1         | 1.9        | NA                  | 1.5       |
| 10 SAN MIGUEL CORP        | Consumer Staples           | 1,254                      | -0.6%       | 0.2%  | -0.6% | 13.9         | 1.2        | 8.1                 | 0.9       |
| 11 BANK OF PHIL ISLANDS   | Financials                 | 1,226                      | 36.9%       | 10.5% | 36.9% | 20.5         | 3.0        | NA                  | 2.4       |
| UNIVERSAL ROBINA CORP     | Consumer Staples           | 1,210                      | 34.1%       | 18.4% | 34.1% | 23.1         | 3.0        | 14.6                | 2.4       |

Performance in USD. Source: MSCI and FactSet

## Poland – Underweight

Figure 230. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>1.4%</b> |
| Weight in Region           | 7.7%        |
| FF Mkt Cap (US\$, mn)      | 52.6        |
| <b>Sector Weights</b>      |             |
| Financials                 | 41.7%       |
| Utilities                  | 13.3%       |
| Materials                  | 17.5%       |
| Energy                     | 13.1%       |
| Telecommunication Services | 7.6%        |
| Consumer Discretionary     | 2.8%        |
| Information Technology     | 2.0%        |
| Consumer Staples           | 2.0%        |
| Industrials                | 0.0%        |
| Health Care                | 0.0%        |

Source: MSCI, FactSet and CIRA

Citi's GDP growth forecasts have been revised upwards for 2012 (to 2.7%) and downwards for 2013 (to 2.4%). Investment growth was stronger than expected in late 2011, although household consumption still remains muted. On balance, growth in 2012-13 will remain below potential, even if the economy looks in reasonable shape within a regional context. Broader risk appetite as well as decent performance of the economy should continue to support the zloty in the short term, but pressure on the currency may mount later in the year. With a benign inflation outlook at this stage, interest rates should stay on hold and may be cut in early 2013. YTD, the equity market has nicely outperformed within GEMs; it now trades at a small discount to GEMs, but at a tangible premium to CEEMEA. Citi analysts expect earnings to contract this year and, on balance, we prefer sectors and stocks with defensive features, including insurer PZU (PZU.WA; ZL308.20; 1) and retailer Eurocash (ERCS.WA). Our preferred bank is PKO BP (BAPE.WA; ZL140.40; 1). **(Andrew Howell)**

Figure 231. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population mn (2012e)       | 38.2                 |
| GDP 2012e (US\$, bn)        | 504.0                |
| GDP/Capita (US\$)           | 13,194               |
| Real GDP Growth (2012e)     | 2.7%                 |
| Inflation (CPI) (2012e)     | 3.8%                 |
| Exports (2012e)             | 174.8                |
| Exports/GDP (2012e)         | 34.7%                |
| Top 3 Exports               | Mach, manuf, food    |
| CA Balance % of GDP (2012e) | -3.2%                |
| Fiscal Bal % of GDP (2012e) | -3.3%                |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 167                  |
| MSCI Free Float (US\$, bn)  | 53                   |
| Avg Daily Volume (US\$, mn) | 254                  |
| Local Index [B'berg Ticker] | WIG [WIG]            |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | A-                   |
| Currency                    | Zloty (PLN)          |
| Citi FX Forecast (2012e)    | 4.16                 |
| Leader / Next Election      | B. Komorowski (2015) |
| Capital                     | Warsaw               |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 232. Map



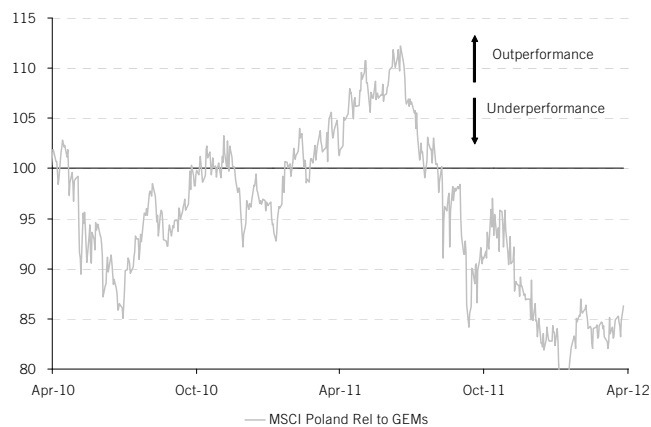
Source: US State Department

Figure 233. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 234. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 235. MSCI Forward P/E



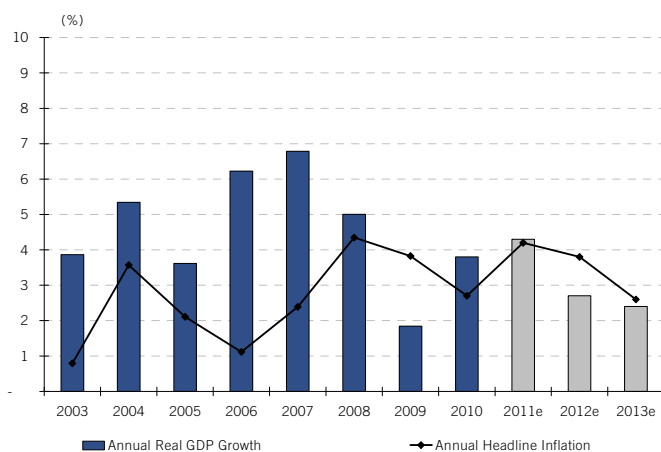
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 236. MSCI Trailing P/B



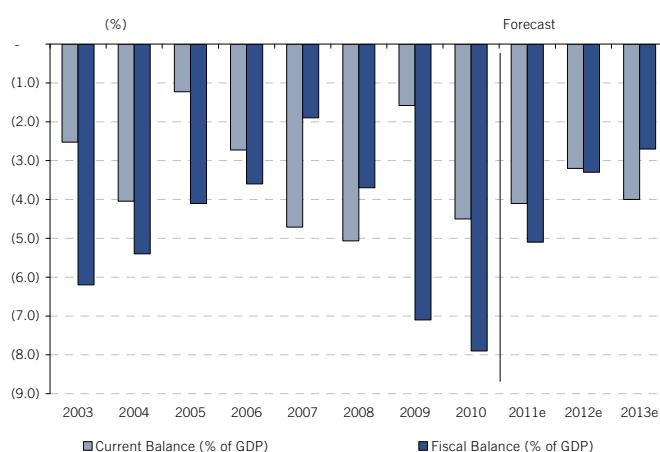
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 237. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 238. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 239. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|----------------------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|    |                          |                            |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1  | PKO BANK POLSKI          | Financials                 | 6,733                      | 15.2%       | -2.6%  | 15.2% | 11.0         | 1.8        | NA                  | 5.9       |
| 2  | KGHM POLSKA MIEDZ        | Materials                  | 6,424                      | 42.5%       | -4.2%  | 42.5% | 2.6          | 1.2        | 2.4                 | 10.4      |
| 3  | BANK PEKAO               | Financials                 | 5,868                      | 20.9%       | -1.0%  | 20.9% | 14.3         | 1.9        | NA                  | 4.4       |
| 4  | POWSZECHNY ZAKLAD UBEZ   | Financials                 | 5,849                      | 15.8%       | -4.3%  | 15.8% | 12.0         | 2.2        | NA                  | 8.0       |
| 5  | POLSKA GRUPA ENER        | Utilities                  | 4,626                      | 2.6%        | -4.2%  | 2.6%  | 7.3          | 0.9        | 4.7                 | 3.4       |
| 6  | TPSA TELEKOM POLSKA      | Telecommunication Services | 4,025                      | 9.2%        | -0.8%  | 9.2%  | 22.9         | 1.6        | 5.6                 | 8.8       |
| 7  | POLSKI KONCERN NAF ORLEI | Energy                     | 3,842                      | 21.3%       | 3.7%   | 21.3% | 5.0          | 0.6        | 2.9                 | 0.0       |
| 8  | POLISH OIL & GAS         | Energy                     | 2,293                      | 9.0%        | 9.4%   | 9.0%  | 14.7         | 1.0        | 7.4                 | 3.0       |
| 9  | TAURON POLSKA ENERGIA    | Utilities                  | 1,713                      | 4.5%        | -1.8%  | 4.5%  | 7.3          | 0.6        | 3.4                 | 3.0       |
| 10 | BRE BK ROZWOJU EKSPORTU  | Financials                 | 1,348                      | 27.7%       | -6.7%  | 27.7% | 10.6         | 1.5        | NA                  | 0.0       |
| 11 | JASTRZEBSKA SPOLKA WEGL  | Materials                  | 1,264                      | 23.7%       | -10.3% | 23.7% | 6.3          | 1.4        | 4.3                 |           |
| 12 | SYNTHOS                  | Materials                  | 1,199                      | 57.1%       | 19.1%  | 57.1% | 8.6          | 2.8        | 7.5                 | 3.7       |

Performance in USD. Source: MSCI and FactSet

## Russia – Neutral

The political noise that surrounded Russia in the build-up to the early-March presidential elections has largely died down, with PM Putin having been re-elected as President. He returns to the post at a time of high oil prices, which could help GDP expand faster than currently expected (Citi forecast: 3.5% in 2012, after 4.3% reported in 2011). However, the story relies heavily on oil prices staying at or above current levels, with good prospects for consumer spending but little investment activity outside budget-sponsored projects. In the absence of reform and modernization, the fiscal breakeven oil price has increased to \$120/bbl, an unsustainably high level. The equity market remains the cheapest in GEMs, although the dominant oil and gas sector is looking less attractive given uncertainties with tax policy. We prefer domestics (especially consumer discretionary) and infrastructure plays over commodity exporters. **(Andrew Howell)**

Figure 240. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>6.8%</b> |
| Weight in Region           | 37.0%       |
| FF Mkt Cap (US\$, mn)      | 252.9       |
| <b>Sector Weights</b>      |             |
| Energy                     | 59.5%       |
| Materials                  | 10.1%       |
| Financials                 | 15.5%       |
| Telecommunication Services | 7.4%        |
| Utilities                  | 4.5%        |
| Consumer Staples           | 3.1%        |
| Health Care                | 0.0%        |
| Industrials                | 0.0%        |
| Consumer Discretionary     | 0.0%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 241. Snapshot

|                             |                   |
|-----------------------------|-------------------|
| <b>Macro</b>                |                   |
| Population mn (2012e)       | 142.7             |
| GDP 2012e (US\$, bn)        | 1,943.0           |
| GDP/Capita (US\$)           | 13,616            |
| Real GDP Growth (2012e)     | 3.5%              |
| Inflation (CPI) (2012e)     | 5.5%              |
| Exports (2012e)             | 398.0             |
| Exports/GDP (2012e)         | 20.5%             |
| Top 3 Exports               | Fuel, metal, chem |
| CA Balance % of GDP (2012e) | 3.2%              |
| Fiscal Bal % of GDP (2012e) | -0.3%             |
| <b>Market</b>               |                   |
| Total Mkt Cap (US\$, bn)    | 923               |
| MSCI Free Float (US\$, bn)  | 253               |
| Avg Daily Volume (US\$, mn) | 1,714             |
| Local Index [B'berg Ticker] | MICEX             |
| <b>Other</b>                |                   |
| Credit Rating (S&P)         | BBB               |
| Currency                    | Ruble (RUB)       |
| Citi FX Forecast (2012e)    | 30.9              |
| Leader / Next Election      | V. Putin (2018)   |
| Capital                     | Moscow            |

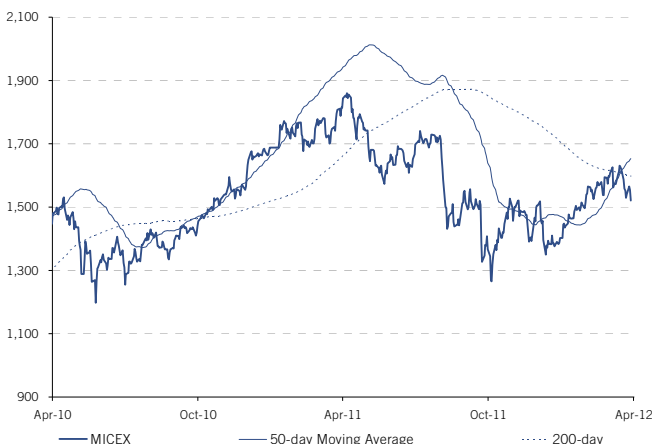
Source: MSCI, Bloomberg, EIU, CIRA

Figure 242. Map



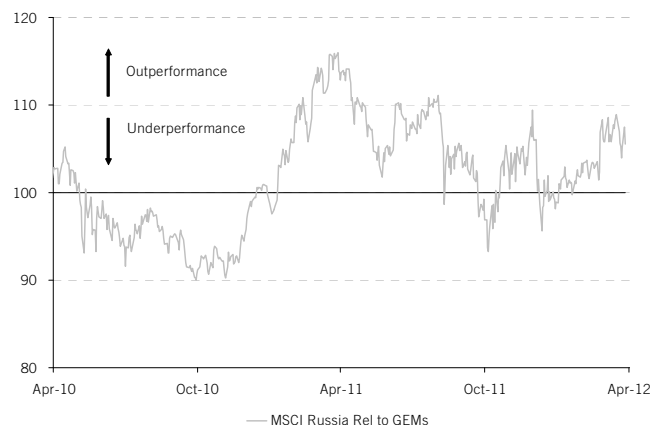
Source: US State Department

Figure 243. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 244. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 245. MSCI Forward P/E



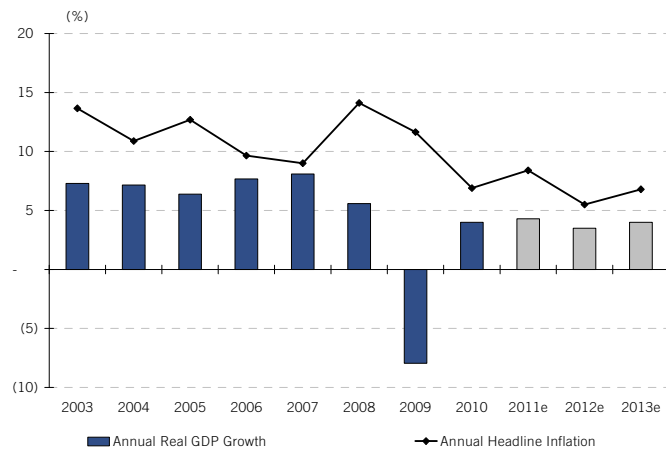
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 246. MSCI Trailing P/B



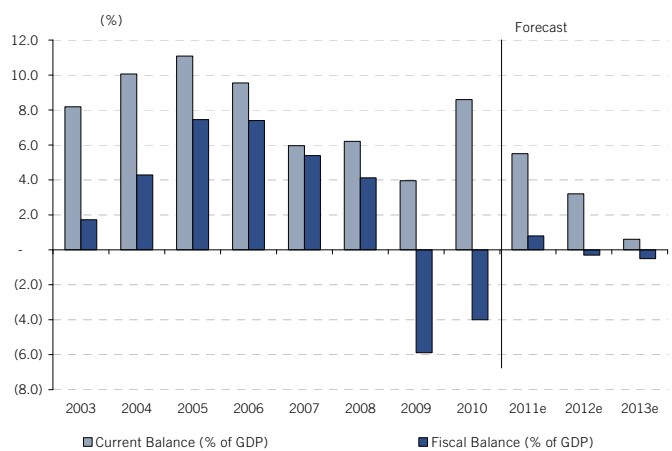
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 247. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 248. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 249. Key Companies (MSCI Index; end-quarter valuation data)

| Name                       | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|                            |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1 GAZPROM (RUB)            | Energy                     | 65,592                     | 15.4%       | -7.3% | 15.4% | 3.5          | 0.6        | 2.8                 | 2.1       |
| 2 LUKOIL HOLDING(RUB)      | Energy                     | 30,875                     | 14.2%       | -5.7% | 14.2% | 4.6          | 0.7        | 3.2                 | 3.3       |
| 3 SBERBANK RUSSIA COM(RU)  | Financials                 | 27,817                     | 30.3%       | -6.1% | 30.3% | 6.2          | 1.7        | NA                  | 1.0       |
| 4 NOVATEK GDR (USD)        | Energy                     | 12,343                     | 8.2%        | -6.6% | 8.2%  | 17.5         | 5.0        | 15.4                | 1.5       |
| 5 ROSNEFT (RUB)            | Energy                     | 11,348                     | 7.3%        | -7.7% | 7.3%  | 6.1          | 1.2        | 4.1                 | 1.3       |
| 6 URALKALI COMMON (RUB)    | Materials                  | 10,523                     | 4.9%        | -7.1% | 4.9%  | 32.5         | 2.5        | 25.8                | 1.8       |
| 7 MOBILE TELESYS ADR (USD) | Telecommunication Services | 9,475                      | 24.9%       | 0.5%  | 24.9% | 13.1         | 5.4        | 5.0                 | 5.7       |
| 8 TATNEFT COMMON (RUB)     | Energy                     | 9,442                      | 35.2%       | 0.2%  | 35.2% | 7.0          | 1.1        | 5.8                 | 2.6       |
| 9 NORILSK NICKEL MMC(RUB)  | Materials                  | 8,740                      | 19.5%       | -7.3% | 19.5% | 7.1          | 2.1        | 6.2                 | 3.3       |
| 10 MAGNIT GDR              | Consumer Staples           | 7,668                      | 37.7%       | -1.1% | 37.7% | 37.8         | 5.5        | 26.4                | 0.3       |
| 11 SURGUTNEFTEGAZ COMN(RU) | Energy                     | 6,989                      | 24.3%       | -5.8% | 24.3% | 5.2          | 0.8        | NA                  | 1.7       |
| 12 ROSTELECOM COMMON (RUE) | Telecommunication Services | 6,465                      | 3.0%        | -3.0% | 3.0%  | 13.3         | 1.7        | 4.9                 | 0.0       |

Performance in USD. Source: MSCI and FactSet

## South Africa – Overweight

Figure 250. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>7.6%</b> |
| Weight in Region           | 41.7%       |
| FF Mkt Cap (US\$, mn)      | 285.3       |
| <b>Sector Weights</b>      |             |
| Materials                  | 22.1%       |
| Financials                 | 26.4%       |
| Consumer Discretionary     | 14.7%       |
| Telecommunication Services | 13.0%       |
| Energy                     | 9.5%        |
| Consumer Staples           | 6.6%        |
| Industrials                | 4.7%        |
| Health Care                | 2.9%        |
| Information Technology     | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

South Africa's GDP growth should firm to 3-4% in 2012-3, better than in recent years. Inflation is expected to hover around the upper end of the 3-6% target range for most of 2012, but no rate hikes are expected until 2H12. The resource nationalism debate might be dying down as the ruling ANC continues to rein in the most vocal supporters of nationalization of the mining sector; however, this remains an area to keep an eye on given the upcoming ANC elective conference. The rand, which is highly sensitive to global risk aversion and commodity price swings, looks about fair value. The equity market trades at a premium to GEMs, but is largely in-line with its own historical PE and PB valuations. Citi analysts forecast earnings growth of ~20% in 2012 in South Africa - one of the highest rates in the GEMs universe - and coming from a range of sectors. Access to Frontier Africa through the South African equity market remains a theme of interest to investors looking for exposure to that region, highlighted by Shoprite's upcoming capital raise, a large part of which will go towards expansion in Africa. **(Andrew Howell)**

Figure 251. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population mn (2012e)       | 51.1                |
| GDP 2012e (US\$, bn)        | 401.2               |
| GDP/Capita (US\$)           | 7,851               |
| Real GDP Growth (2012e)     | 2.9%                |
| Inflation (CPI) (2012e)     | 6.0%                |
| Exports (2012e)             | 108.9               |
| Exports/GDP (2012e)         | 27.1%               |
| Top 3 Exports               | Metals, coal, auto  |
| CA Balance % of GDP (2012e) | -4.7%               |
| Fiscal Bal % of GDP (2012e) | -4.8%               |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 507                 |
| MSCI Free Float (US\$, bn)  | 285                 |
| Avg Daily Volume (US\$, mn) | 1,352               |
| Local Index [B'berg Ticker] | FTSE/JSE 40 [TOP40] |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | BBB+                |
| Currency (ZAR)              | Rand (ZAR)          |
| Citi FX Forecast (2012e)    | 7.82                |
| Leader / Next Election      | J. Zuma (2014)      |
| Capital                     | Pretoria            |

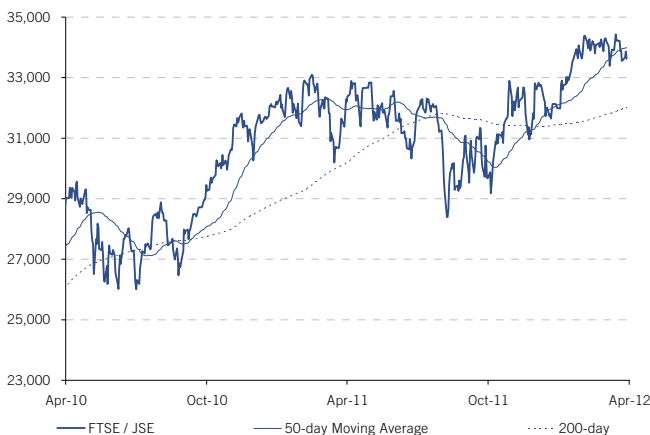
Source: MSCI, Bloomberg, EIU, CIRA

Figure 252. Map



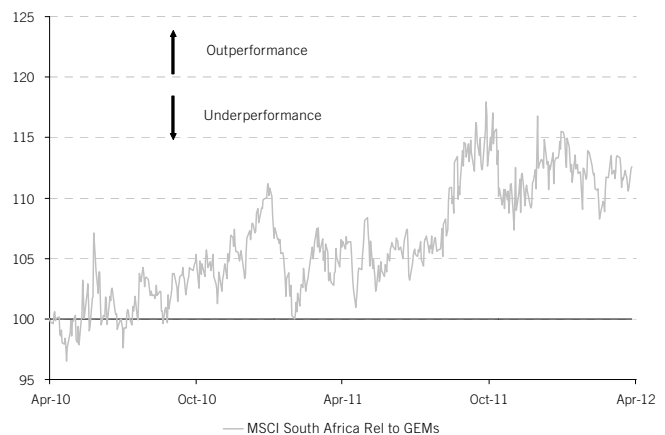
Source: US State Department

Figure 253. Local Index with Moving Averages



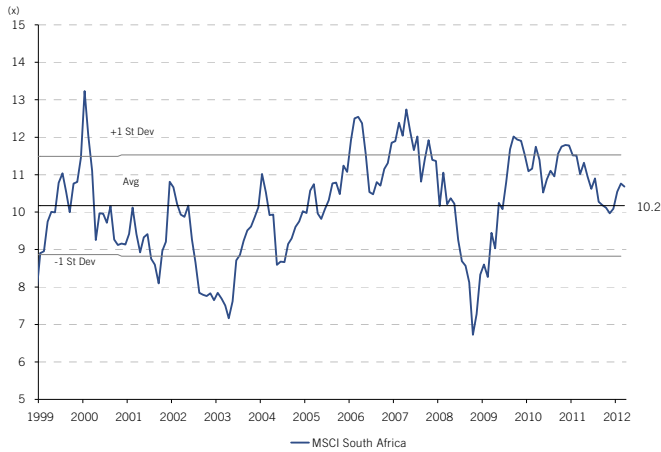
Source: Datastream and Citi Investment Research and Analysis

Figure 254. MSCI Index in USD Relative to GEMs



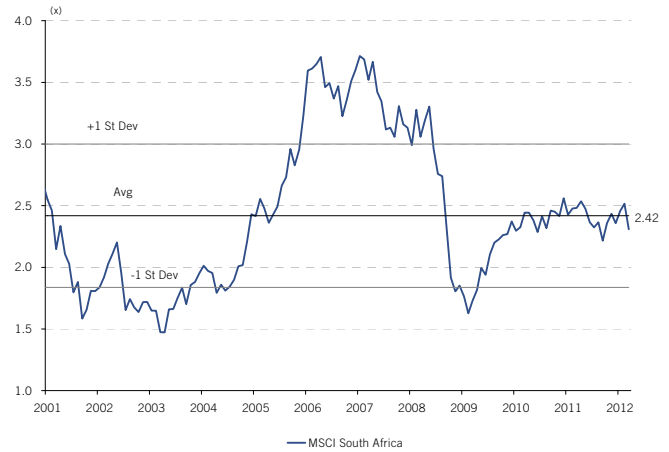
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 255. MSCI Forward P/E



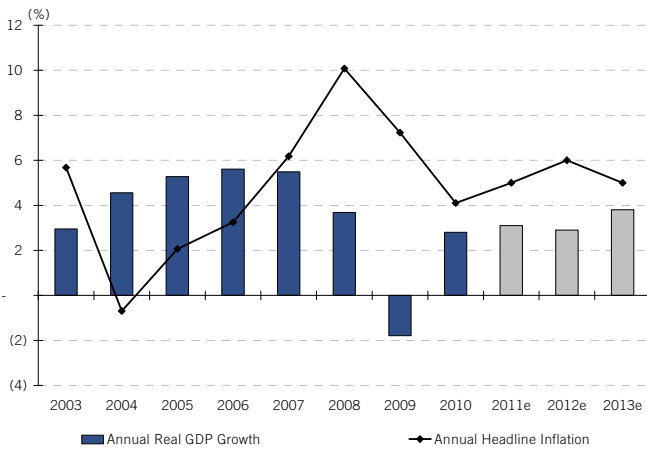
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 256. MSCI Trailing P/B



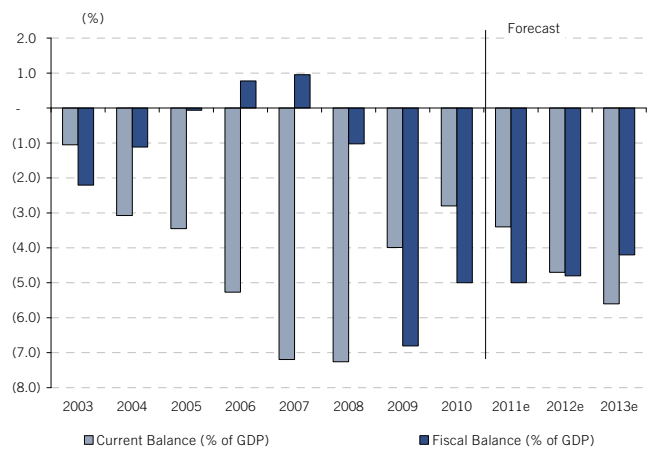
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 257. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 258. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 259. Key Companies (MSCI Index; end-quarter valuation data)

| Name                      | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|---------------------------|----------------------------|----------------------------|-------------|--------|--------|--------------|------------|---------------------|-----------|
|                           |                            |                            | Last Q      | MTD    | YTD    |              |            |                     |           |
| 1 MTN GROUP               | Telecommunication Services | 29,844                     | -1.2%       | -3.1%  | -1.2%  | 12.8         | 2.9        | 7.2                 | 5.5       |
| 2 SASOL                   | Energy                     | 26,416                     | 1.1%        | -10.0% | 1.1%   | 8.9          | 2.0        | 7.5                 | 4.2       |
| 3 NASPERS N               | Consumer Discretionary     | 21,726                     | 28.4%       | 0.4%   | 28.4%  | NM           | 3.9        | 26.3                | 0.6       |
| 4 STANDARD BANK GROUP     | Financials                 | 17,287                     | 18.6%       | -2.2%  | 18.6%  | 13.2         | 1.8        | NA                  | 3.8       |
| 5 ANGLGOLD ASHANTI        | Materials                  | 14,064                     | -13.5%      | -15.8% | -13.5% | 10.1         | 2.7        | 9.4                 | 1.3       |
| 6 IMPALA PLATINUM HOLDING | Materials                  | 9,950                      | -5.0%       | -12.2% | -5.0%  | 11.9         | 1.9        | 10.0                | 3.7       |
| 7 GOLD FIELDS             | Materials                  | 9,905                      | -11.4%      | -14.2% | -11.4% | 10.8         | 1.6        | 9.8                 | 3.1       |
| 8 FIRSTRAND               | Financials                 | 8,705                      | 20.2%       | -3.7%  | 20.2%  | 12.8         | 2.3        | NA                  | 3.8       |
| 9 SANLAM                  | Financials                 | 7,717                      | 21.0%       | 4.4%   | 21.0%  | 13.5         | 2.1        | NA                  | 3.9       |
| 10 SHOPRITE HOLDINGS      | Consumer Staples           | 7,656                      | 6.0%        | -2.0%  | 6.0%   | 26.7         | 6.9        | 19.7                | 1.8       |
| 11 REMGRO                 | Financials                 | 7,524                      | 18.3%       | -2.8%  | 18.3%  | 14.4         | 1.2        | 13.5                | 2.5       |
| 12 BIDVEST GROUP          | Industrials                | 7,289                      | 22.2%       | -0.7%  | 22.2%  | 13.8         | 2.9        | 9.6                 | 3.0       |

Performance in USD. Source: MSCI and FactSet

## Taiwan – Neutral

Figure 260. Country Breakdown

|                            |              |
|----------------------------|--------------|
| <b>Weight in GEMs</b>      | <b>10.9%</b> |
| Weight in Region           | 18.7%        |
| FF Mkt Cap (US\$, mn)      | 409.0        |
| <b>Sector Weights</b>      |              |
| Information Technology     | 56.4%        |
| Financials                 | 14.5%        |
| Materials                  | 13.7%        |
| Telecommunication Services | 4.9%         |
| Industrials                | 3.3%         |
| Consumer Discretionary     | 4.0%         |
| Consumer Staples           | 2.3%         |
| Energy                     | 0.9%         |
| Health Care                | 0.0%         |
| Utilities                  | 0.0%         |

Source: MSCI, FactSet and CIRA

MSCI Taiwan, up 14.5% in dollar terms, outperformed Asia ex and GEMs in Q1, fueled by the liquidity rally on the back of the ECB's LTRO operation. Foreigners were strong buyers of equities at the start of the year but there was some deceleration going into the quarter-end. Deterioration of growth momentum continued in 4Q11 as suggested by the slowdown in both exports and private investment. Our economists expect GDP growth to bottom in 1Q12 as inventories quickly decline and they are more upbeat on the 2H12 outlook. Removing the political overhang after the ruling KMT won the presidential election should accelerate cross-strait development, providing some protection for downside risks to growth. Earnings revisions have bottomed although they are still negative. Valuations in Taiwan are some of the most attractive within EM Asia, with both the P/E and P/BV ratios trading close to their historical averages, and the dividend yield at 3.7%, the highest in the region. We prefer Technology, Cyclical and Financials in Taiwan. **(Markus Rosgen)**

Figure 261. Snapshot

|                             |                     |
|-----------------------------|---------------------|
| <b>Macro</b>                |                     |
| Population mn (2012e)       | 23.2                |
| GDP 2012e (US\$, bn)        | 492.4               |
| GDP/Capita (US\$)           | 21,224              |
| Real GDP Growth (2012e)     | 3.7%                |
| Inflation (CPI) (2012e)     | 1.7%                |
| Exports (2012e)             | 323.7               |
| Exports/GDP (2012e)         | 65.7%               |
| Top 3 Exports               | Elec, metals, tech  |
| CA Balance % of GDP (2012e) | 8.7%                |
| Fiscal Bal % of GDP (2012e) | -2.0%               |
| <b>Market</b>               |                     |
| Total Mkt Cap (US\$, bn)    | 824                 |
| MSCI Free Float (US\$, bn)  | 409                 |
| Avg Daily Volume (US\$, mn) | 3,169               |
| Local Index [B'berg Ticker] | Taiex [TWSE]        |
| <b>Other</b>                |                     |
| Credit Rating (S&P)         | AA-                 |
| Currency                    | Dollar (TWD)        |
| Citi FX Forecast (2012e)    | 29.4                |
| Leader / Next Election      | Ma Ying-jeou (2016) |
| Capital                     | Taipei              |

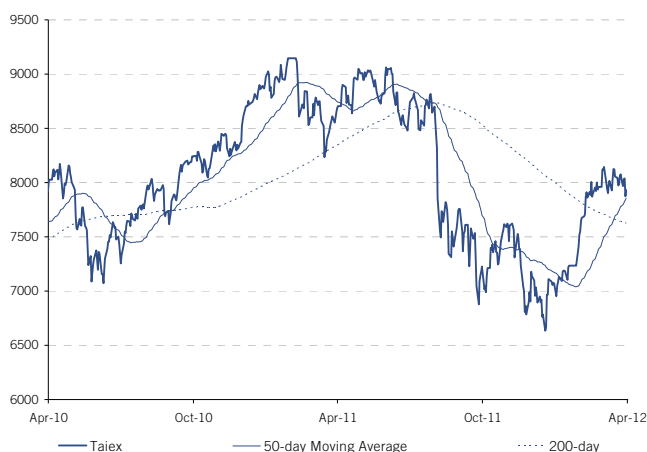
Source: MSCI, Bloomberg, EIU, CIRA

Figure 262. Flag



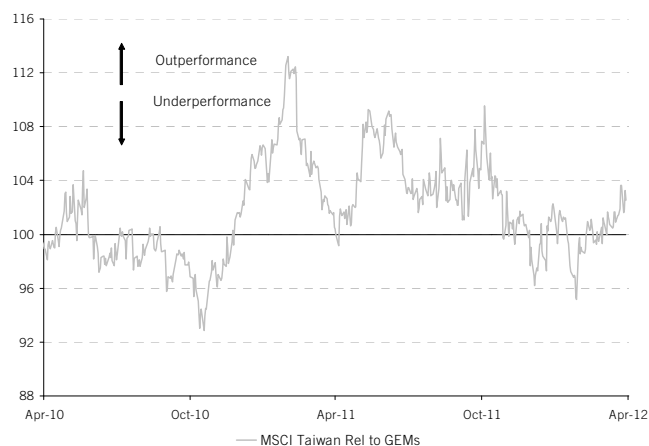
Source: US State Department

Figure 263. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

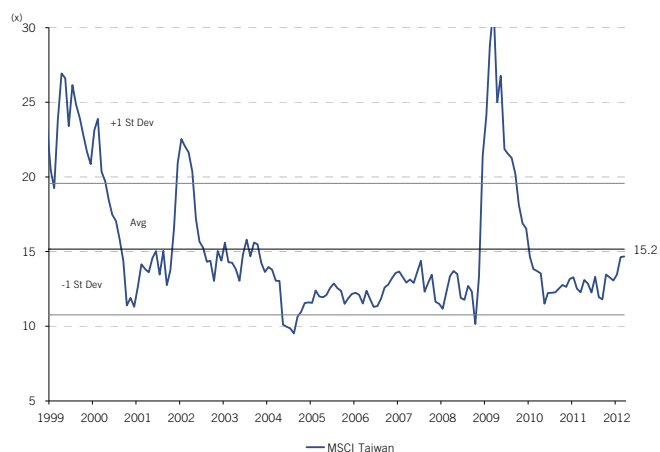
Figure 264. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

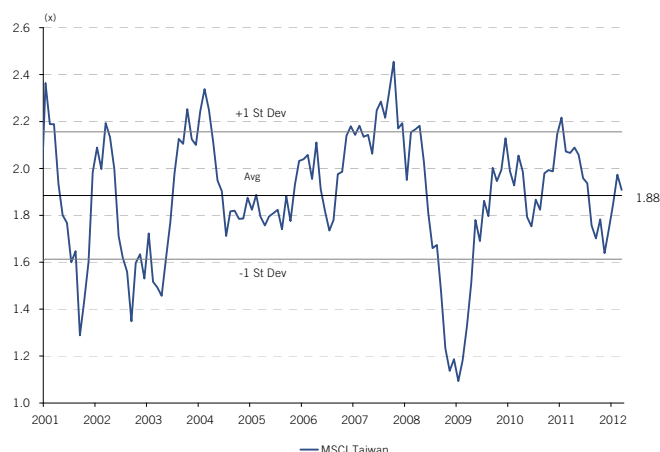


Figure 265. MSCI Forward P/E



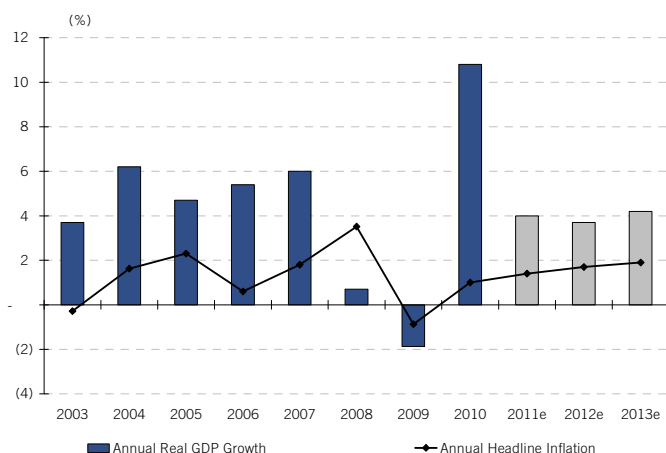
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 266. MSCI Trailing P/B



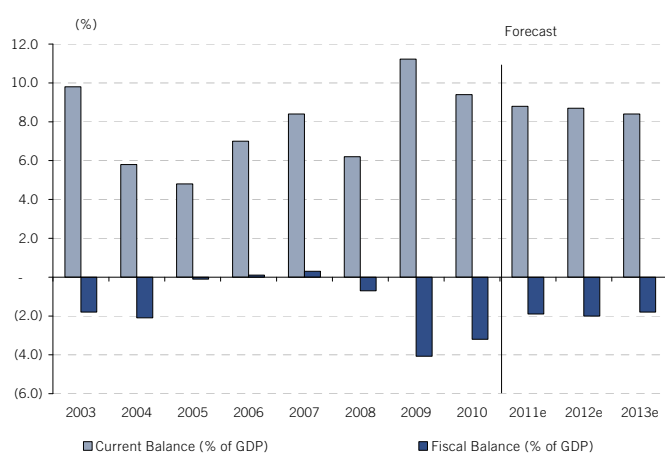
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 267. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 268. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 269. Key Companies (MSCI Index; end-quarter valuation data)

| Name                       | Sector                     | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----------------------------|----------------------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|                            |                            |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1 TAIWAN SEMICONDUCTOR M   | Information Technology     | 70,817                     | 14.9%       | 4.3%   | 14.9% | 16.4         | 3.5        | 9.1                 | 3.5       |
| 2 HON HAI PRECISION IND CO | Information Technology     | 35,248                     | 41.7%       | 11.3%  | 41.7% | 16.7         | 2.4        | 10.4                | 0.9       |
| 3 HTC CORP                 | Information Technology     | 14,821                     | 23.2%       | -10.0% | 23.2% | 8.2          | 5.0        | 7.9                 | 6.2       |
| 4 FORMOSA PLASTIC CORP     | Materials                  | 11,714                     | 10.3%       | -5.9%  | 10.3% | 10.3         | 2.1        | 8.3                 | 7.8       |
| 5 CHUNGHWA TELECOM CO      | Telecommunication Services | 11,707                     | -6.7%       | 0.1%   | -6.7% | 14.7         | 2.0        | 8.7                 | 6.1       |
| 6 CHINA STEEL CORP COMMON  | Materials                  | 11,528                     | 7.4%        | -1.5%  | 7.4%  | 14.8         | 1.7        | 7.8                 | 6.6       |
| 7 NAN YA PLASTIC           | Materials                  | 10,647                     | 13.9%       | -8.0%  | 13.9% | 12.9         | 2.0        | 9.2                 | 7.0       |
| 8 MEDIATEK INC             | Information Technology     | 9,885                      | 4.4%        | -6.5%  | 4.4%  | 17.8         | 3.2        | 15.3                | 7.1       |
| 9 FORMOSA CHEMICAL FIBERS  | Materials                  | 8,310                      | 10.7%       | -6.7%  | 10.7% | 9.3          | 1.9        | 6.7                 | 8.7       |
| 10 CATHAY FINANCIAL HLDS   | Financials                 | 7,664                      | 5.4%        | -3.3%  | 5.4%  | 29.1         | 2.0        | NA                  | 1.8       |
| 11 QUANTA COMPUTER         | Information Technology     | 6,538                      | 24.5%       | 5.9%   | 24.5% | 15.4         | 2.8        | 11.8                | 4.7       |
| 12 ASUSTEK COMPUTER        | Information Technology     | 6,393                      | 32.6%       | 0.5%   | 32.6% | 13.6         | 2.1        | 11.8                | 5.0       |

Performance in USD. Source: MSCI and FactSet

## Thailand – Neutral

Thailand was, again, the best performing Asian market – and in the top five of GEMs performers – in Q1 (up 20.4% in dollar terms) after a strong Q411. Foreign buying continued to be a key support for the outperformance. Recent readings on manufacturing and improving consumption suggest that domestic-oriented industries will lead the recovery. While our economists remain positive on consumer spending, rising oil prices and an increased primary deficit risk may hinder policy stimulus to support growth. With inflation expectations well contained, there is flexibility for the MPC to maintain an accommodative monetary policy. Earnings revisions turned positive in March. Valuations are not supportive, although not alarming, with both P/B and P/E around 0.5x standard deviations above their averages. We like Banks and Property. **(Markus Rosgen)**

Figure 270. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>2.1%</b> |
| Weight in Region           | 3.5%        |
| FF Mkt Cap (US\$, mn)      | 77.4        |
| <b>Sector Weights</b>      |             |
| Energy                     | 29.9%       |
| Financials                 | 36.4%       |
| Materials                  | 12.8%       |
| Consumer Staples           | 10.7%       |
| Consumer Discretionary     | 2.0%        |
| Telecommunication Services | 6.9%        |
| Industrials                | 0.0%        |
| Utilities                  | 1.2%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 271. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population mn (2012e)       | 64.6                 |
| GDP 2012e (US\$, bn)        | 370.0                |
| GDP/Capita (US\$)           | 5,631                |
| Real GDP Growth (2012e)     | 3.8%                 |
| Inflation (CPI) (2012e)     | 2.9%                 |
| Exports (2012e)             | 244.5                |
| Exports/GDP (2012e)         | 66.1%                |
| Top 3 Exports               | Mach, circuit, autos |
| CA Balance % of GDP (2012e) | -1.3%                |
| Fiscal Bal % of GDP (2012e) | -3.8%                |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 322                  |
| MSCI Free Float (US\$, bn)  | 77                   |
| Avg Daily Volume (US\$, mn) | 844                  |
| Local Index [B'berg Ticker] | SET 50 [SET50]       |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | BBB+                 |
| Currency                    | Baht (THB)           |
| Citi FX Forecast (2012e)    | 30.6                 |
| Leader / Next Election      | Y. Shinawatra (2015) |
| Capital                     | Bangkok              |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 272. Map



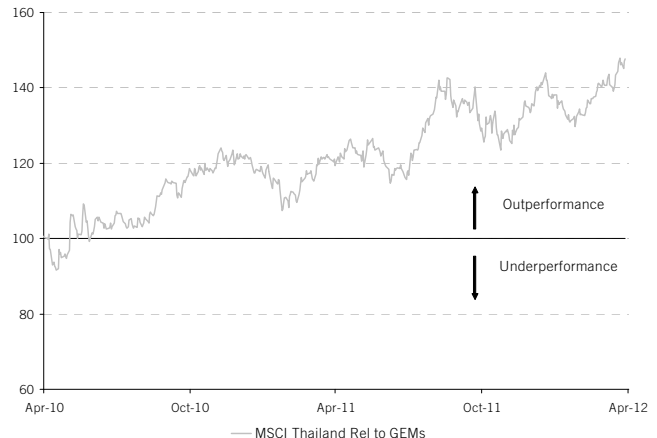
Source: US State Department

Figure 273. Local Index with Moving Averages



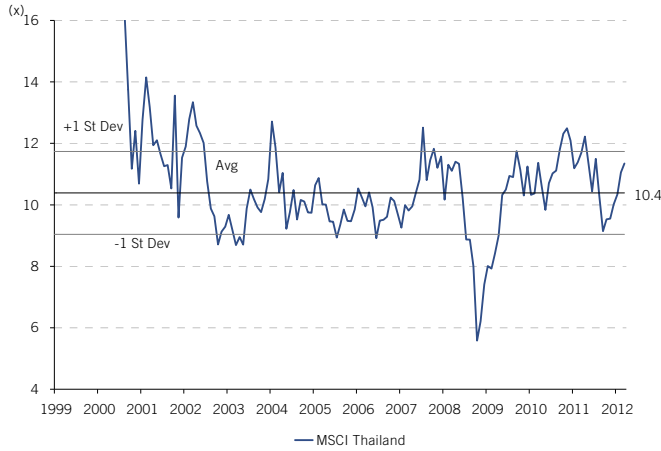
Source: Datastream and Citi Investment Research and Analysis

Figure 274. MSCI Index in USD Relative to GEMs



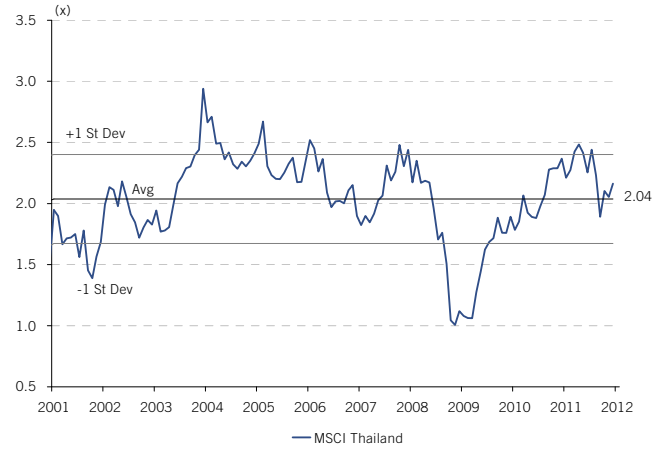
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 275. MSCI Forward P/E



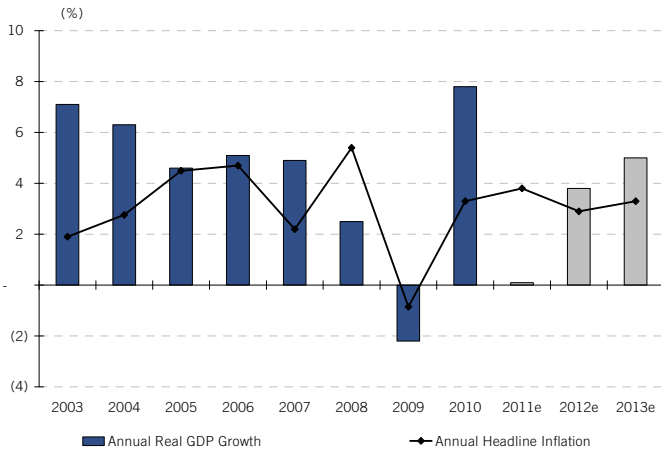
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 276. MSCI Trailing P/B



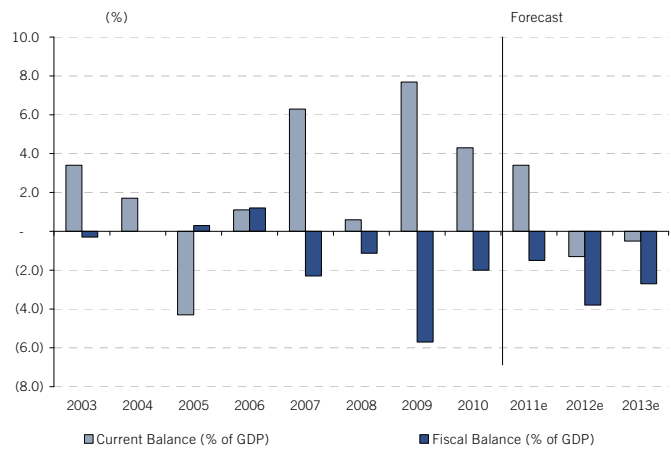
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 277. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 278. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 279. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                   | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|    |                        |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1  | PTT                    | Energy                     | 9,833                      | 13.8%       | -4.3% | 13.8% | 9.6          | 1.8        | 6.3                 | 3.7       |
| 2  | SIAM COMMERCIAL BANK   | Financials                 | 7,260                      | 26.0%       | 8.3%  | 26.0% | 13.4         | 2.6        | NA                  | 2.4       |
| 3  | PTT EXPLORATION & PROD | Energy                     | 6,573                      | 5.9%        | -7.2% | 5.9%  | 12.9         | 2.9        | 7.4                 | 3.1       |
| 4  | KASIKORNBANK FGN       | Financials                 | 5,949                      | 28.6%       | 3.4%  | 28.6% | 15.5         | 2.4        | NA                  | 1.6       |
| 5  | ADVANCED INFO SERVICE  | Telecommunication Services | 5,320                      | 33.9%       | 12.8% | 33.9% | 24.6         | 13.9       | 13.7                | 4.6       |
| 6  | BANGKOK BANK FGN       | Financials                 | 5,282                      | 21.0%       | -1.9% | 21.0% | 13.5         | 1.5        | NA                  | 3.1       |
| 7  | CP ALL PCL             | Consumer Staples           | 4,674                      | 29.4%       | -3.0% | 29.4% | 36.8         | 13.7       | 26.4                | 2.1       |
| 8  | SIAM CEMENT FGN        | Materials                  | 4,045                      | 16.2%       | -5.1% | 16.2% | 12.2         | 3.7        | 9.3                 | 3.0       |
| 9  | PTT GLOBAL CHEMICAL    | Materials                  | 3,837                      | 19.0%       | -6.5% | 19.0% | 37.8         | 1.6        | 15.1                | 4.2       |
| 10 | CHAROEN POKPHAND FOOD  | Consumer Staples           | 3,632                      | 15.4%       | 0.8%  | 15.4% | 16.6         | 4.1        | 12.8                | 3.9       |
| 11 | KASIKORNBANK           | Financials                 | 2,987                      | 29.1%       | 3.1%  | 29.1% | 15.2         | 2.4        | NA                  | 1.6       |
| 12 | BANGKOK BANK           | Financials                 | 2,862                      | 23.3%       | 0.3%  | 23.3% | 12.9         | 1.4        | NA                  | 3.2       |

Performance in USD. Source: MSCI and FactSet

## Turkey – Underweight

Macroeconomic challenges – a very wide current account deficit and elevated inflation – continue to cloud the outlook for Turkey. GDP growth is forecast to slow from 8.5% in 2011 to 2.5% in 2012, even if temporary factors were largely behind the softer economic indicators in the first quarter. The current account deficit is expected to moderate to a still high level of 8.7% of GDP in 2012, after coming in at ~10% in 2011. An external adjustment is underway, although rising oil prices complicate the picture further and, with relatively low FDI coverage, Turkey is vulnerable to sudden shifts in investor sentiment. Core inflation at >8% is high, with CPI inflation likely to remain in double digits in the months ahead. After strong Q1 gains (+27%, the second-best performer within GEMS), valuations are at a narrower discount to GEMS than has historically been the case. We would avoid the banks in light of potential serious macro challenges ahead and would be selective in Turkish industrials, where we like Arcelik (ARCLK.IS; TL8.22; 1), BIZIM (BIZIM.IS; TL25.20; 1), TAV (TAVHL.IS; TL9.00; 1) and Tofas (TOASO.IS; TL7.84; 1). **(Andrew Howell)**

Figure 280. Country Breakdown

|                            |             |
|----------------------------|-------------|
| <b>Weight in GEMs</b>      | <b>1.4%</b> |
| Weight in Region           | 7.5%        |
| FF Mkt Cap (US\$, mn)      | 51.2        |
| <b>Sector Weights</b>      |             |
| Financials                 | 50.1%       |
| Telecommunication Services | 12.3%       |
| Consumer Staples           | 13.3%       |
| Industrials                | 9.7%        |
| Energy                     | 6.2%        |
| Materials                  | 4.0%        |
| Consumer Discretionary     | 4.5%        |
| Health Care                | 0.0%        |
| Information Technology     | 0.0%        |
| Utilities                  | 0.0%        |

Source: MSCI, FactSet and CIRA

Figure 281. Snapshot

|                             |                      |
|-----------------------------|----------------------|
| <b>Macro</b>                |                      |
| Population mn (2012e)       | 74.3                 |
| GDP 2012e (US\$, bn)        | 781.2                |
| GDP/Capita (US\$)           | 10,514               |
| Real GDP Growth (2012e)     | 2.5%                 |
| Inflation (CPI) (2012e)     | 9.5%                 |
| Exports (2012e)             | 147.1                |
| Exports/GDP (2012e)         | 18.8%                |
| Top 3 Exports               | Textile, trans, agri |
| CA Balance % of GDP (2012e) | -8.7%                |
| Fiscal Bal % of GDP (2012e) | -2.2%                |
| <b>Market</b>               |                      |
| Total Mkt Cap (US\$, bn)    | 250                  |
| MSCI Free Float (US\$, bn)  | 51                   |
| Avg Daily Volume (US\$, mn) | 1,331                |
| Local Index [B'berg Ticker] | ISE 100 [XU100]      |
| <b>Other</b>                |                      |
| Credit Rating (S&P)         | BB                   |
| Currency                    | New Lira (TRY)       |
| Citi FX Forecast (2012e)    | 1.83                 |
| Leader / Next Election      | R. Erdogan (2015)    |
| Capital                     | Ankara               |

Source: MSCI, Bloomberg, EIU, CIRA

Figure 282. Map



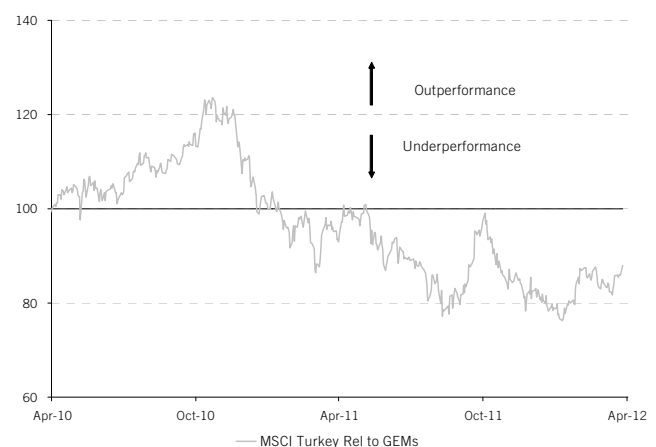
Source: US State Department

Figure 283. Local Index with Moving Averages



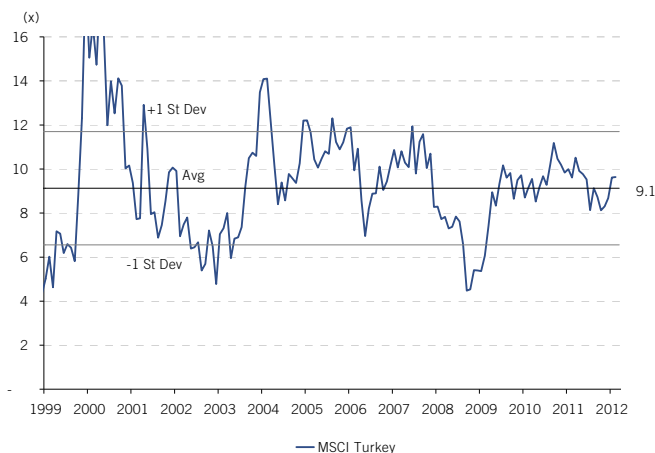
Source: Datastream and Citi Investment Research and Analysis

Figure 284. MSCI Index in USD Relative to GEMs



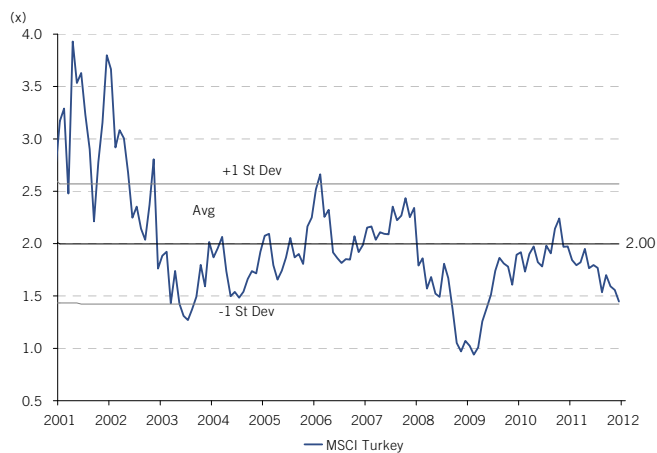
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 285. MSCI Forward P/E



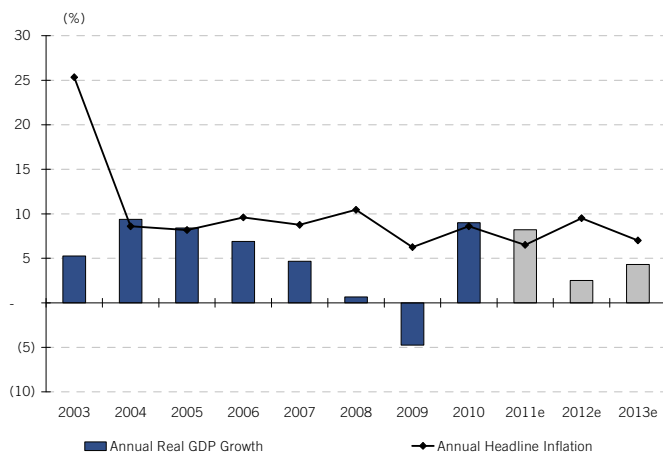
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 286. MSCI Trailing P/B



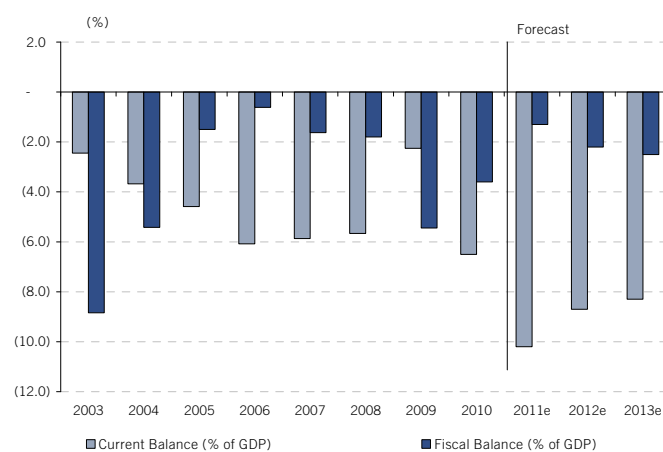
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 287. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 288. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 289. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Sector                     | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|----------------------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|    |                          |                            |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1  | TURKIYE GARANTI BANKASI  | Financials                 | 8,316                      | 26.8%       | 4.1%  | 26.8% | 8.8          | 1.6        | NA                  | 3.1       |
|    | AKBANK                   | Financials                 | 4,711                      | 23.2%       | -2.4% | 23.2% | 11.0         | 1.5        | NA                  | 2.0       |
| 2  | TURKCELL ILETISIM HIZMET | Telecommunication Services | 3,939                      | 8.8%        | -7.0% | 8.8%  | 15.0         | 1.9        | 8.1                 | 0.0       |
| 3  | TURKIYE IS BANKASI C     | Financials                 | 3,878                      | 40.5%       | 3.3%  | 40.5% | 8.7          | 1.1        | NA                  | 2.7       |
| 4  | TUPRAS TURKIYE PETROL    | Energy                     | 3,195                      | 20.5%       | 3.1%  | 20.5% | 9.2          | 2.6        | 7.8                 | 8.6       |
| 5  | BIM BIRLESIK MAGAZALAR   | Consumer Staples           | 3,161                      | 36.2%       | 7.5%  | 36.2% | 34.3         | 16.6       | 27.3                | 1.8       |
| 6  | ANADOLU EFES BIRACILIK   | Consumer Staples           | 2,828                      | 15.7%       | -8.0% | 15.7% | 32.2         | 3.6        | 16.6                | 1.9       |
| 7  | KOC HOLDING              | Industrials                | 2,452                      | 35.0%       | -2.6% | 35.0% | 8.2          | 1.3        | 5.5                 | 3.1       |
| 8  | TURK TELEKOMUNIKASYON    | Telecommunication Services | 2,279                      | 16.8%       | 1.1%  | 16.8% | 13.1         | 4.7        | 8.5                 | 7.0       |
| 9  | TURKIYE HALK BANKASI     | Financials                 | 2,235                      | 36.4%       | 3.6%  | 36.4% | 7.9          | 1.9        | NA                  | 2.5       |
| 10 | SABANCI HLDG (HACI OMER) | Financials                 | 2,192                      | 50.3%       | -0.8% | 50.3% | 7.8          | 1.1        | 6.2                 | 2.0       |
| 11 | YAPI VE KREDI BANKASI    | Financials                 | 1,755                      | 41.8%       | 5.6%  | 41.8% | 6.9          | 1.2        | NA                  | 0.0       |
| 12 | TURKIYE VAKIFLAR BANKASI | Financials                 | 1,422                      | 46.1%       | 6.8%  | 46.1% | 5.5          | 0.8        | NA                  | 0.4       |

Performance in USD. Source: MSCI and FactSet

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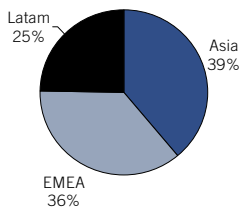
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# Sectors

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## Energy – Overweight

Figure 290. Sector Breakdown



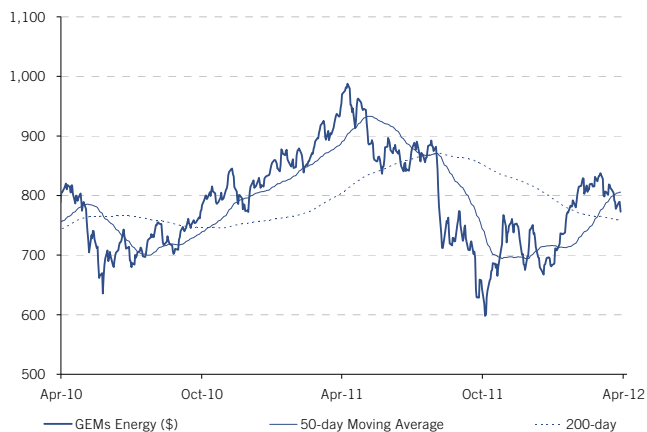
Source: MSCI, FactSet and CIRA

Figure 291. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 12.8%       | -7.5% | 12.8% | 8.6%           | -5.5% | 8.6%  | 7.3         | 1.17         | 15.9% | 2.8%      |
| AC World | 4.5%        | -4.9% | 4.5%  | 3.1%           | -4.3% | 3.1%  | 9.6         | 1.62         | 16.0% | 2.7%      |
| Asia     | 11.2%       | -7.9% | 11.2% | 10.1%          | -6.9% | 10.1% | 9.0         | 1.88         | 18.9% | 3.0%      |
| Latam    | 13.7%       | -9.1% | 13.7% | 10.6%          | -3.9% | 10.6% | 9.8         | 1.18         | 10.2% | 2.7%      |
| EMEA     | 14.0%       | -6.0% | 14.0% | 5.7%           | -4.9% | 5.7%  | 4.8         | 0.83         | 17.2% | 2.6%      |

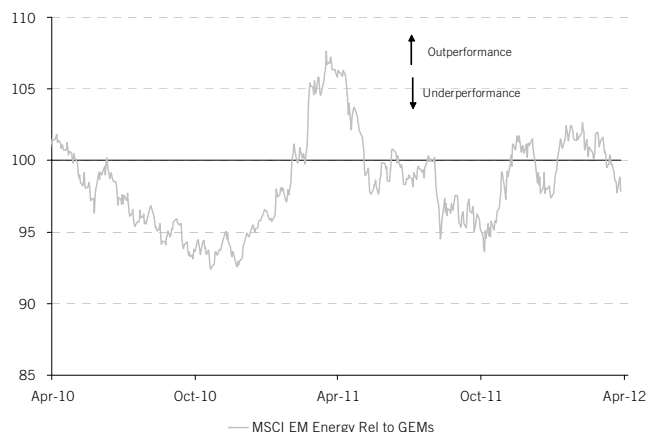
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 292. MSCI Sector Index in USD



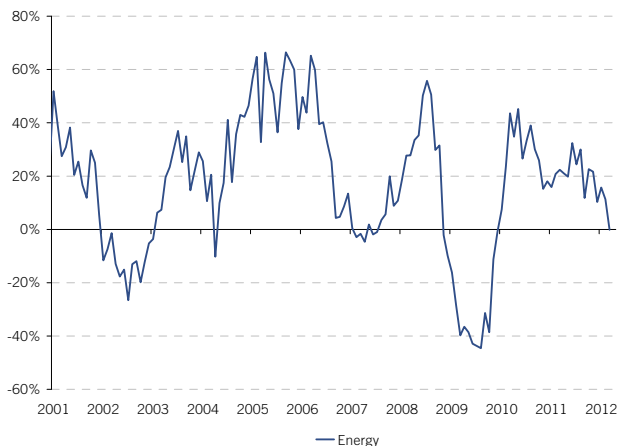
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 293. MSCI Index Relative to GEMs



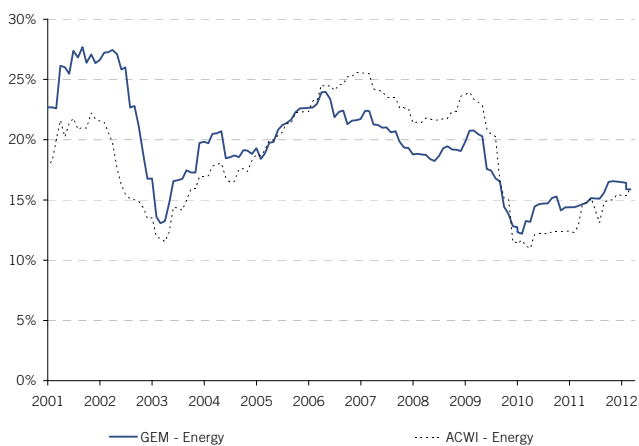
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 294. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 295. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

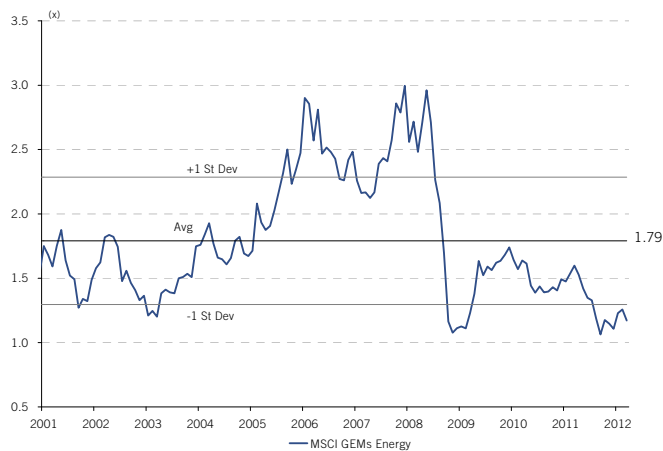


Figure 296. MSCI GEMs Sector Forward 12m P/E (Consensus)



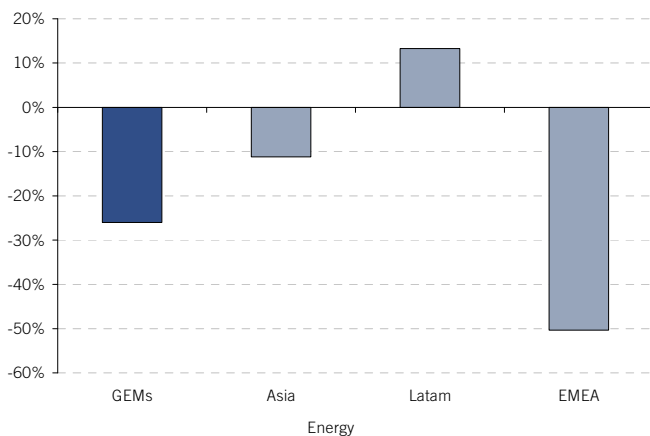
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 297. Sector Trailing P/B



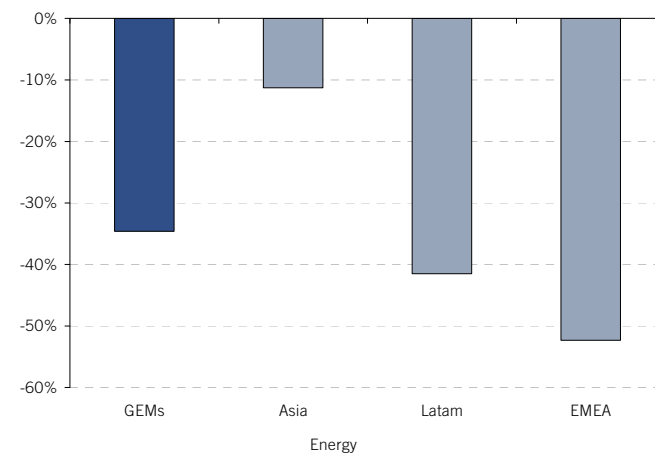
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 298. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 299. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

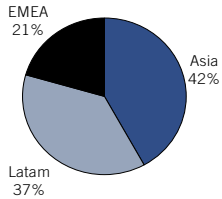
Figure 300. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                 | Country      | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|----------------------|--------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|    |                      |              |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1  | GAZPROM (RUB)        | Russia       | 65,592                     | 15.4%       | -7.3%  | 15.4% | 3.5          | 0.6        | 2.8                 | 2.1       |
| 2  | PETROBRAS PN         | Brazil       | 53,777                     | 11.1%       | -9.6%  | 11.1% | 9.1          | 0.9        | 6.0                 | 3.0       |
| 3  | PETROBRAS ON         | Brazil       | 39,654                     | 8.0%        | -11.0% | 8.0%  | 9.5          | 1.0        | 6.2                 | 2.9       |
| 4  | CNOOC                | China        | 36,730                     | 17.6%       | -10.4% | 17.6% | 8.5          | 2.4        | 6.4                 | 3.3       |
| 5  | LUKOIL HOLDING(RUB)  | Russia       | 30,875                     | 14.2%       | -5.7%  | 14.2% | 4.6          | 0.7        | 3.2                 | 3.3       |
| 6  | PETROCHINA CO H      | China        | 29,838                     | 13.6%       | -6.6%  | 13.6% | 11.4         | 1.7        | 5.9                 | 3.9       |
| 7  | SASOL                | South Africa | 26,416                     | 1.1%        | -10.0% | 1.1%  | 8.9          | 2.0        | 7.5                 | 4.2       |
| 8  | RELIANCE INDUSTRIES  | India        | 19,297                     | 12.9%       | -12.0% | 12.9% | 11.7         | 1.6        | 7.3                 | 1.1       |
| 9  | CHINA PETRO & CHEM H | China        | 18,285                     | 3.6%        | -4.9%  | 3.6%  | 7.9          | 1.3        | 4.3                 | 3.4       |
| 10 | ECOPETROL            | Colombia     | 14,916                     | 39.0%       | 2.8%   | 39.0% | 16.0         | 4.7        | 12.8                | 3.2       |

Performance in USD. Source: MSCI and FactSet

## Materials – Neutral

Figure 301. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 302. Key Metrics (MSCI Index; end-quarter)

|          | Performance |        |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|--------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |        |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD    | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 11.2%       | -7.3%  | 11.2% | 7.4%           | -5.0% | 7.4%  | 9.2         | 1.58         | 15.4% | 3.4%      |
| AC World | 9.8%        | -4.5%  | 9.8%  | 8.3%           | -3.2% | 8.3%  | 10.7        | 1.77         | 14.0% | 2.5%      |
| Asia     | 11.4%       | -7.9%  | 11.4% | 9.4%           | -6.8% | 9.4%  | 10.1        | 1.50         | 13.7% | 3.2%      |
| Latam    | 15.2%       | -4.6%  | 15.2% | 11.2%          | -0.7% | 11.2% | 8.5         | 1.52         | 15.4% | 3.7%      |
| EMEA     | 3.9%        | -10.7% | 3.9%  | -2.2%          | -8.7% | -2.2% | 8.4         | 1.95         | 20.2% | 3.3%      |

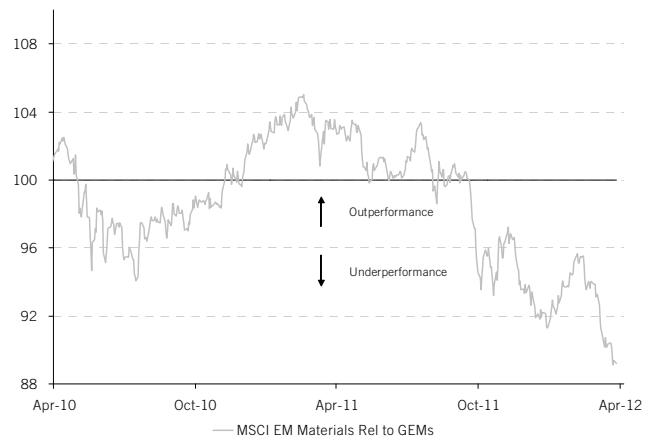
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 303. MSCI Sector Index in USD



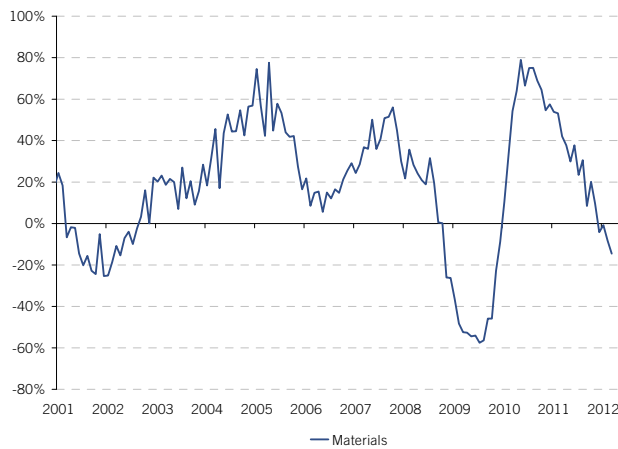
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 304. MSCI Index Relative to GEMs



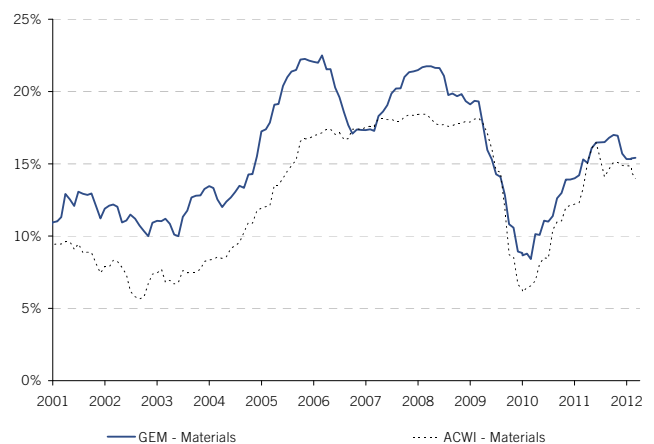
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 305. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



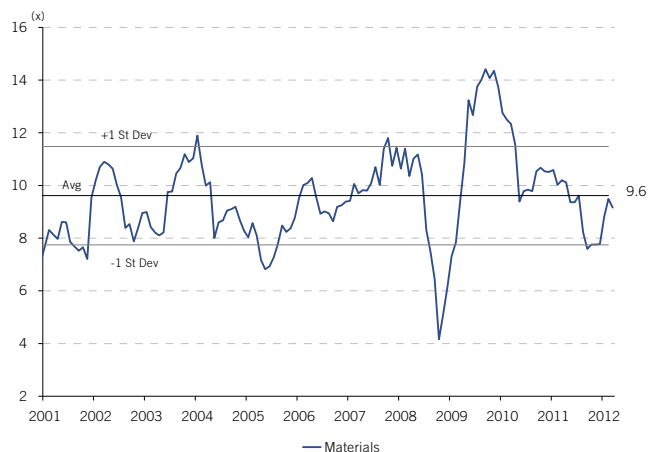
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 306. Sector ROE



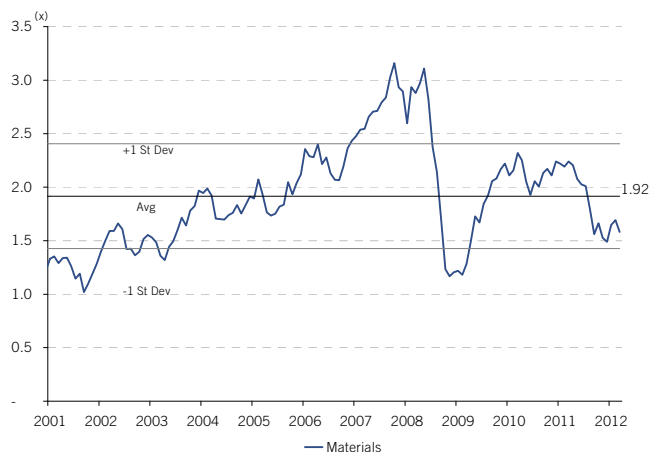
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 307. MSCI GEMs Sector Forward 12m P/E (Consensus)



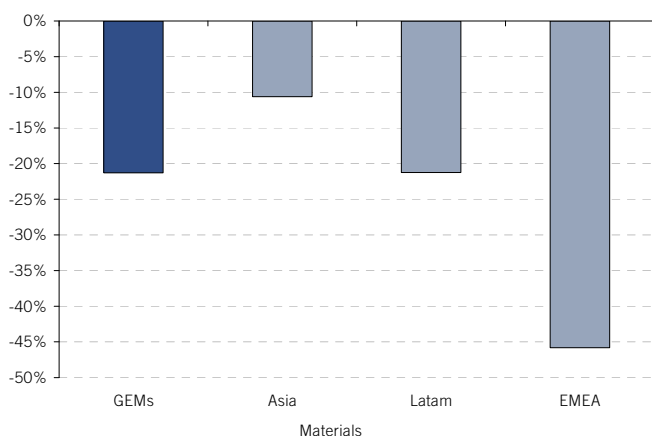
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 308. Sector Trailing P/B



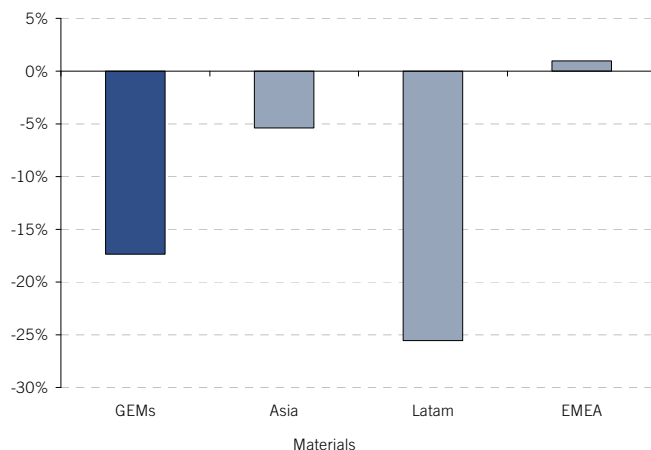
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 309. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 310. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

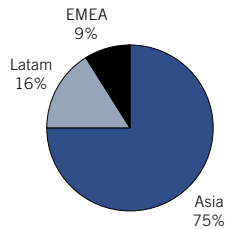
Figure 311. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                    | Country      | MSCI Market Cap (US\$, mn) | Performance |        |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|-------------------------|--------------|----------------------------|-------------|--------|--------|--------------|------------|---------------------|-----------|
|    |                         |              |                            | Last Q      | MTD    | YTD    |              |            |                     |           |
| 1  | VALE PNA                | Brazil       | 45,525                     | 12.1%       | -8.2%  | 12.1%  | 5.6          | 1.5        | 4.7                 | 4.7       |
| 2  | VALE ON                 | Brazil       | 30,634                     | 11.2%       | -7.3%  | 11.2%  | 5.8          | 1.5        | 4.9                 | 4.6       |
| 3  | POSCO                   | Korea        | 21,930                     | 1.7%        | -9.8%  | 1.7%   | 8.9          | 0.8        | 4.7                 | 2.6       |
| 4  | LG CHEM                 | Korea        | 15,149                     | 18.5%       | -8.3%  | 18.5%  | 12.5         | 2.9        | 9.3                 | 1.1       |
| 5  | ANGLOGOLD ASHANTI       | South Africa | 14,064                     | -13.5%      | -15.8% | -13.5% | 10.1         | 2.7        | 9.4                 | 1.3       |
| 6  | GRUPO MEXICO B          | Mexico       | 12,049                     | 20.6%       | -0.5%  | 20.6%  | 10.5         | 2.7        | 8.4                 | 2.0       |
| 7  | FORMOSA PLASTIC CORP    | Taiwan       | 11,714                     | 10.3%       | -5.9%  | 10.3%  | 10.3         | 2.1        | 8.3                 | 7.8       |
| 8  | CHINA STEEL CORP COMMON | Taiwan       | 11,528                     | 7.4%        | -1.5%  | 7.4%   | 14.8         | 1.7        | 7.8                 | 6.6       |
| 9  | NAN YA PLASTIC          | Taiwan       | 10,647                     | 13.9%       | -8.0%  | 13.9%  | 12.9         | 2.0        | 9.2                 | 7.0       |
| 10 | URALKALI COMMON (RUB)   | Russia       | 10,523                     | 4.9%        | -7.1%  | 4.9%   | 32.5         | 2.5        | 25.8                | 1.8       |

Performance in USD. Source: MSCI and FactSet

## Industrials – Neutral

Figure 312. Sector Breakdown



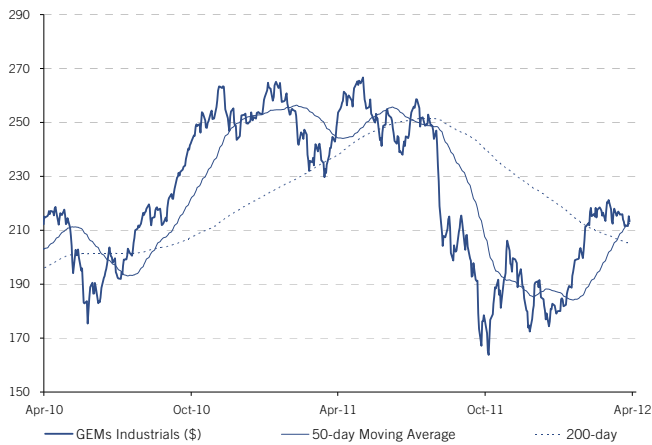
Source: MSCI, FactSet and CIRA

Figure 313. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 17.8%       | -3.8% | 17.8% | 15.1%          | -2.1% | 15.1% | 12.1        | 1.62         | 11.6% | 2.1%      |
| AC World | 11.8%       | -0.4% | 11.8% | 11.8%          | 0.2%  | 11.8% | 12.6        | 2.07         | 13.9% | 2.5%      |
| Asia     | 15.7%       | -5.1% | 15.7% | 13.8%          | -4.0% | 13.8% | 11.3        | 1.46         | 11.8% | 2.0%      |
| Latam    | 23.2%       | 1.0%  | 23.2% | 17.6%          | 4.9%  | 17.6% | 17.5        | 2.69         | 8.4%  | 2.1%      |
| EMEA     | 27.4%       | -0.3% | 27.4% | 22.2%          | 2.0%  | 22.2% | 10.4        | 1.98         | 13.6% | 3.1%      |

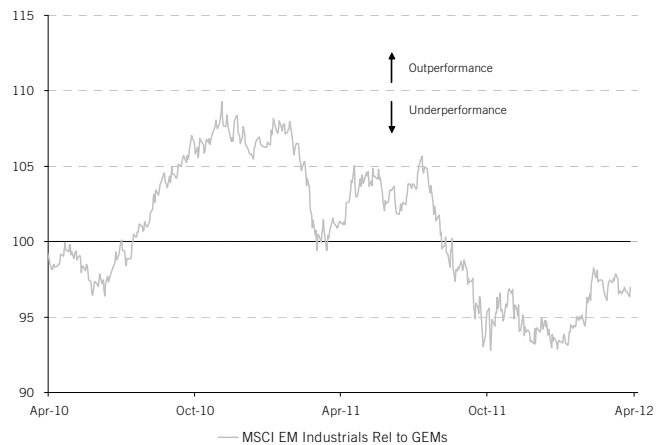
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 314. MSCI Sector Index in USD



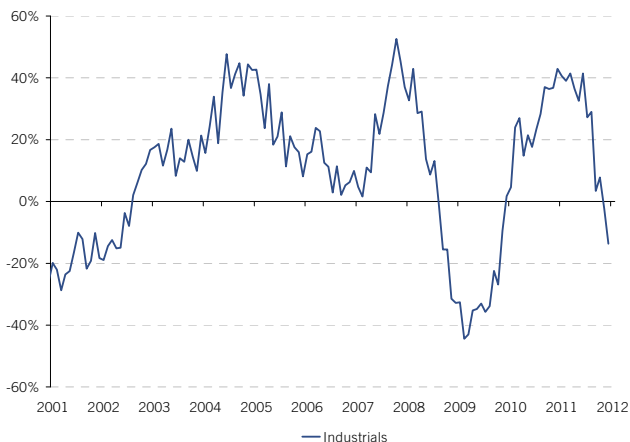
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 315. MSCI Index Relative to GEMs



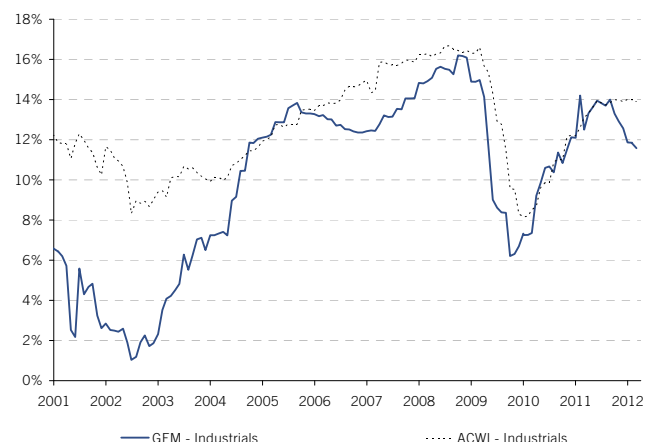
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 316. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 317. Sector ROE



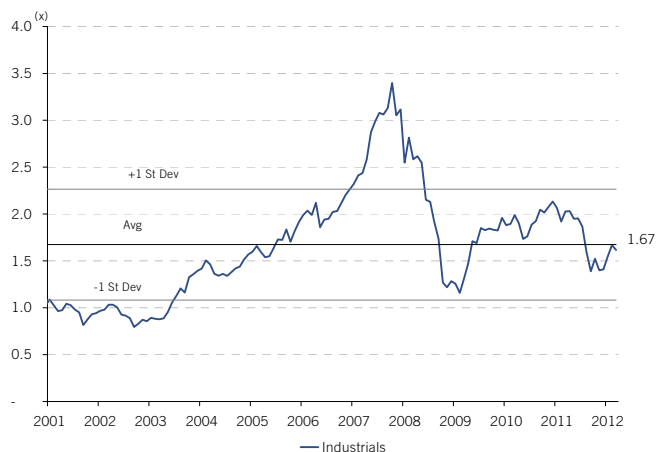
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 318. MSCI GEMs Sector Forward 12m P/E (Consensus)



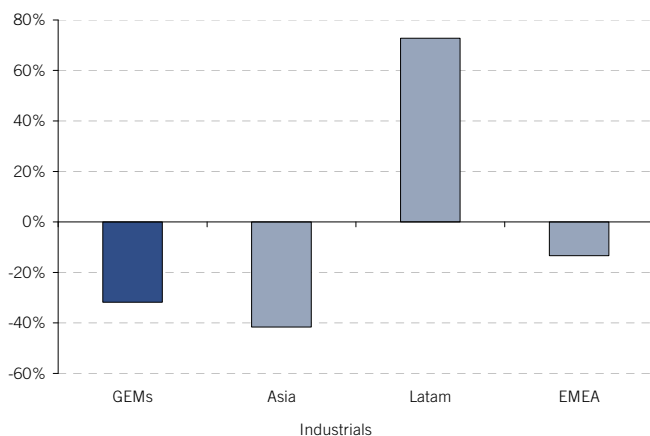
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 319. Sector Trailing P/B



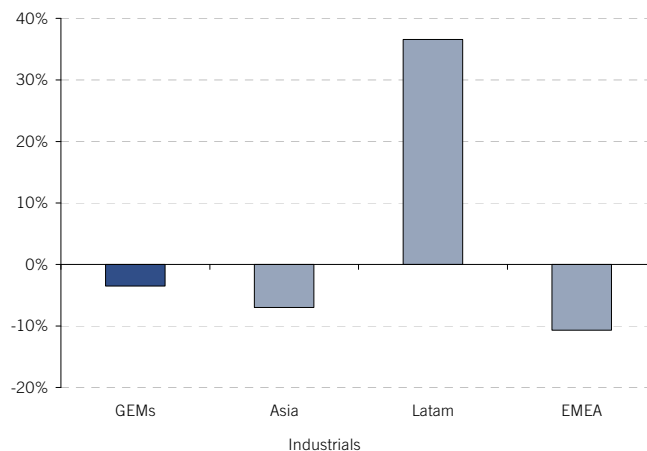
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 320. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 321. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

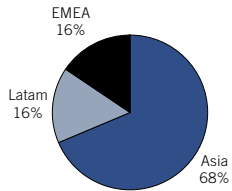
Figure 322. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country      | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|--------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|    |                          |              |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1  | HYUNDAI HEAVY INDUSTRIES | Korea        | 11,861                     | 27.2%       | -6.5% | 27.2% | 6.0          | 1.2        | 4.5                 | 1.2       |
| 2  | SAMSUNG C&T CORP         | Korea        | 8,758                      | 18.5%       | 1.8%  | 18.5% | nm           | 1.5        | 20.9                | 0.6       |
| 3  | SIME DARBY               | Malaysia     | 8,598                      | 9.6%        | -1.7% | 9.6%  | 13.2         | 2.4        | 10.7                | 3.3       |
| 4  | EMPRESAS COPEC           | Chile        | 7,597                      | 25.0%       | -2.7% | 25.0% | 21.8         | 2.1        | 15.5                | 1.9       |
| 5  | BIDVEST GROUP            | South Africa | 7,289                      | 22.2%       | -0.7% | 22.2% | 13.8         | 2.9        | 9.6                 | 3.0       |
| 6  | CCR                      | Brazil       | 7,152                      | 23.7%       | 1.4%  | 23.7% | 29.0         | 8.1        | 19.6                | 3.1       |
| 7  | SAMSUNG ENGINEERING CO   | Korea        | 6,407                      | 22.1%       | 1.0%  | 22.1% | 19.5         | 7.3        | 18.4                | 1.2       |
| 8  | UNITED TRACTORS          | Indonesia    | 6,058                      | 24.2%       | 12.2% | 24.2% | 20.9         | 4.7        | 13.2                | 1.4       |
| 9  | LG CORP (NEW)            | Korea        | 5,445                      | 7.6%        | -8.2% | 7.6%  | 11.4         | 1.1        | 8.7                 | 1.5       |
| 10 | SAMSUNG HEAVY INDUSTRIES | Korea        | 5,384                      | 37.6%       | -8.5% | 37.6% | 8.5          | 1.8        | 6.1                 | 1.3       |

Performance in USD. Source: MSCI and FactSet

## Consumer Discretionary – Overweight

Figure 323. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 324. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 11.9%       | -1.4% | 11.9% | 8.9%           | 0.5%  | 8.9%  | 10.3        | 2.34         | 17.7% | 1.5%      |
| AC World | 16.8%       | 2.6%  | 16.8% | 17.0%          | 3.2%  | 17.0% | 10.7        | 2.24         | 13.3% | 1.8%      |
| Asia     | 9.1%        | -0.8% | 9.1%  | 7.4%           | 0.6%  | 7.4%  | 9.2         | 2.16         | 18.1% | 1.5%      |
| Latam    | 11.8%       | -5.5% | 11.8% | 6.3%           | -2.3% | 6.3%  | 14.0        | 2.60         | 17.3% | 1.2%      |
| EMEA     | 26.2%       | 0.2%  | 26.2% | 19.8%          | 3.1%  | 19.8% | 14.3        | 3.25         | 15.4% | 1.7%      |

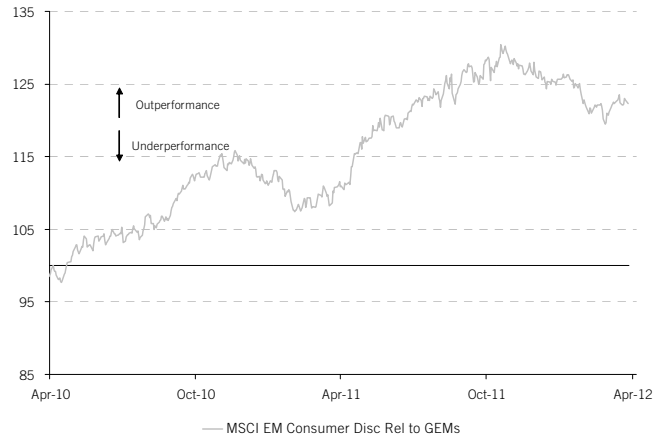
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 325. MSCI Sector Index in USD



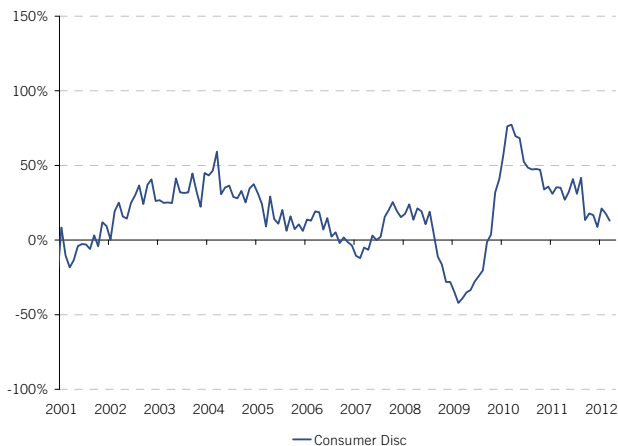
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 326. MSCI Index Relative to GEMs



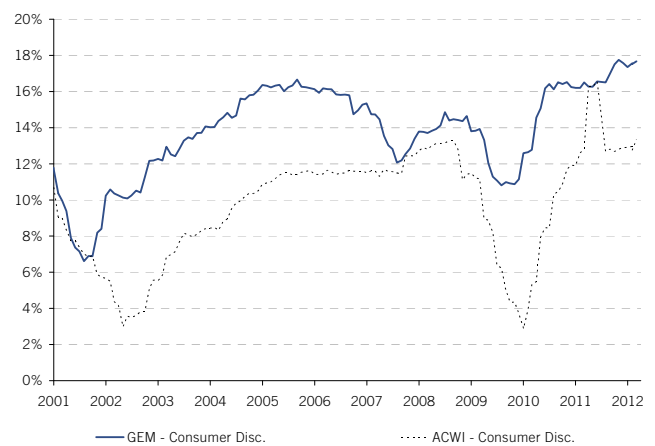
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 327. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



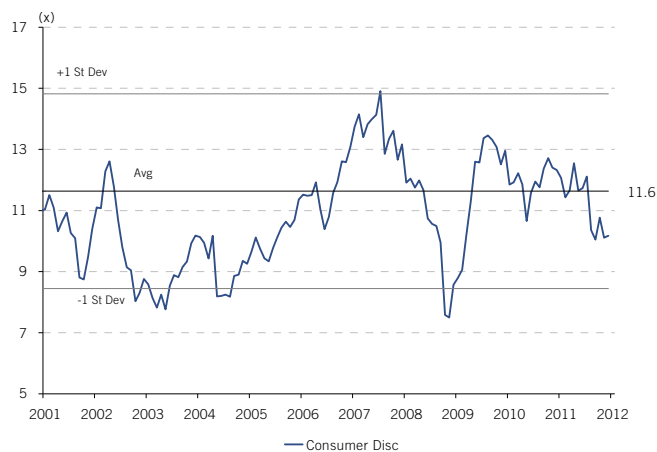
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 328. Sector ROE



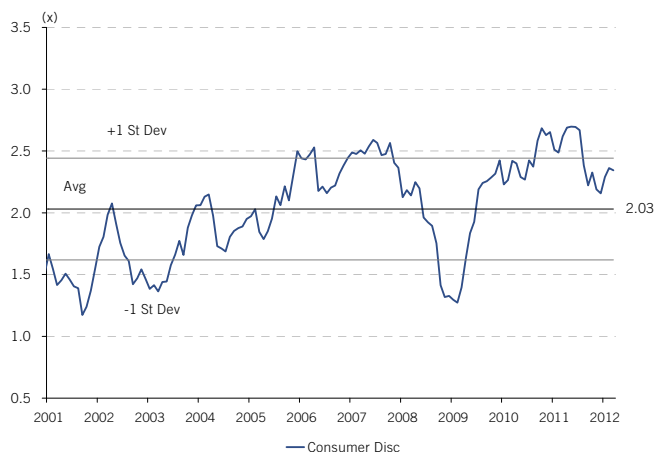
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 329. MSCI GEMs Sector Forward 12m P/E (Consensus)



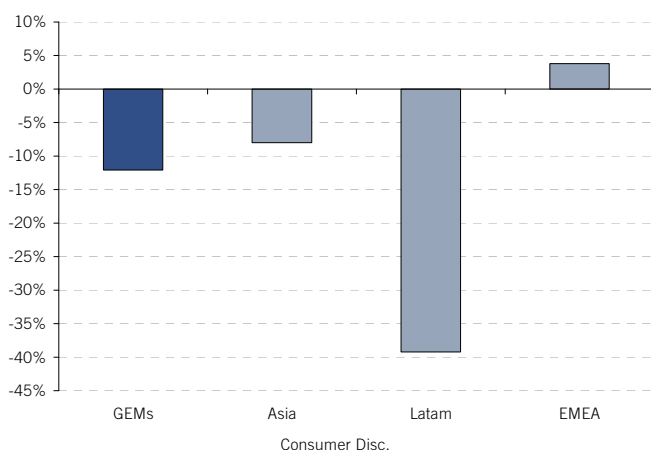
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 330. Sector Trailing P/B



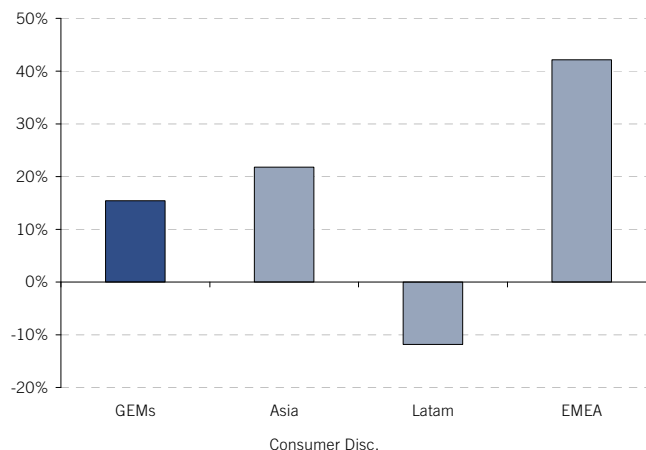
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 331. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 332. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

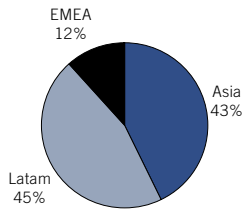
Figure 333. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                  | Country      | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|-----------------------|--------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|    |                       |              |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1  | HYUNDAI MOTOR CO      | Korea        | 31,708                     | 11.2%       | 6.5%  | 11.2% | 9.0          | 1.8        | 5.8                 | 0.8       |
| 2  | NASPERS N             | South Africa | 21,726                     | 28.4%       | 0.4%  | 28.4% | nm           | 3.9        | 26.3                | 0.6       |
| 3  | HYUNDAI MOBIS         | Korea        | 17,230                     | -0.2%       | -0.7% | -0.2% | 9.6          | 2.1        | 8.2                 | 0.6       |
| 4  | ASTRA INTERNATIONAL   | Indonesia    | 16,370                     | -0.9%       | 3.0%  | -0.9% | 16.8         | 5.0        | 13.1                | 2.3       |
| 5  | KIA MOTORS CORP       | Korea        | 15,703                     | 13.0%       | 3.5%  | 13.0% | 8.5          | 2.3        | 6.4                 | 0.8       |
| 6  | GRUPO TELEvisa CPO    | Mexico       | 10,876                     | 0.4%        | -1.6% | 0.4%  | 23.5         | 3.1        | 11.3                | 0.6       |
| 7  | BELLE INT'L HLDGS(CN) | China        | 8,329                      | 3.0%        | 8.6%  | 3.0%  | 24.6         | 5.4        | 20.9                | 1.2       |
| 8  | TATA MOTORS           | India        | 8,143                      | 60.6%       | -2.3% | 60.6% | 7.5          | 3.9        | 4.9                 | 1.5       |
| 9  | LG ELECTRONICS (NEW)  | Korea        | 7,519                      | 13.2%       | -4.3% | 13.2% | nm           | 1.2        | 21.4                | 0.2       |
| 10 | GENTING               | Malaysia     | 7,230                      | 2.0%        | 0.0%  | 2.0%  | 14.0         | 2.3        | 9.4                 | 0.6       |

Performance in USD. Source: MSCI and FactSet

## Consumer Staples – Underweight

Figure 334. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 335. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |      |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |      |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD  | YTD   |             |              |       |           |
| GEMs     | 12.4%       | 2.3%  | 12.4% | 8.6%           | 4.7% | 8.6%  | 19.0        | 3.83         | 15.6% | 1.9%      |
| AC World | 6.6%        | 2.6%  | 6.6%  | 5.6%           | 3.1% | 5.6%  | 15.4        | 3.21         | 17.8% | 2.8%      |
| Asia     | 7.4%        | 2.0%  | 7.4%  | 5.7%           | 3.4% | 5.7%  | 18.3        | 3.73         | 16.9% | 1.9%      |
| Latam    | 16.9%       | 3.7%  | 16.9% | 11.2%          | 7.3% | 11.2% | 21.1        | 3.62         | 13.3% | 1.8%      |
| EMEA     | 15.5%       | -2.0% | 15.5% | 10.4%          | 0.1% | 10.4% | 18.5        | 5.64         | 21.5% | 1.8%      |

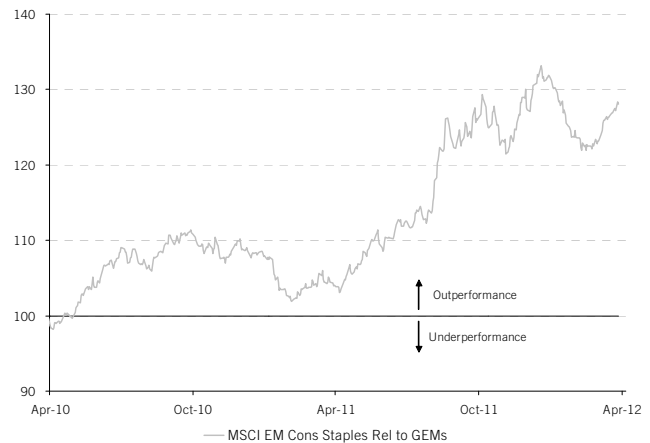
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 336. MSCI Sector Index in USD



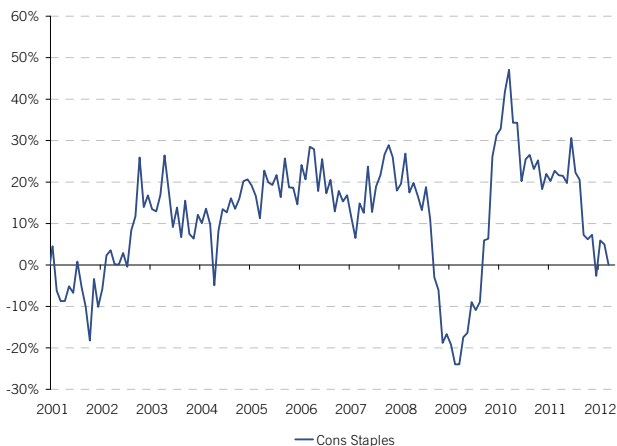
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 337. MSCI Index Relative to GEMs



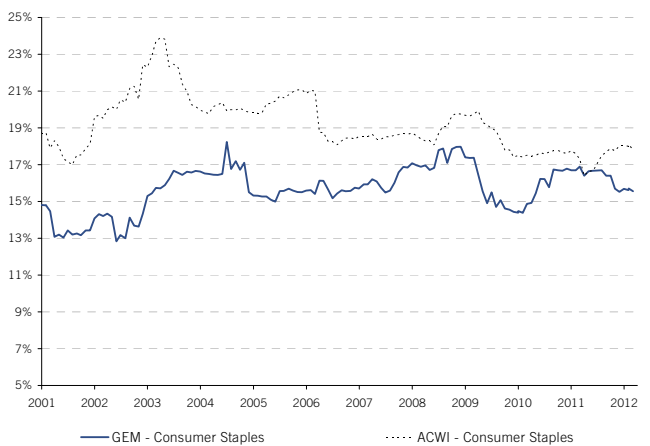
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 338. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

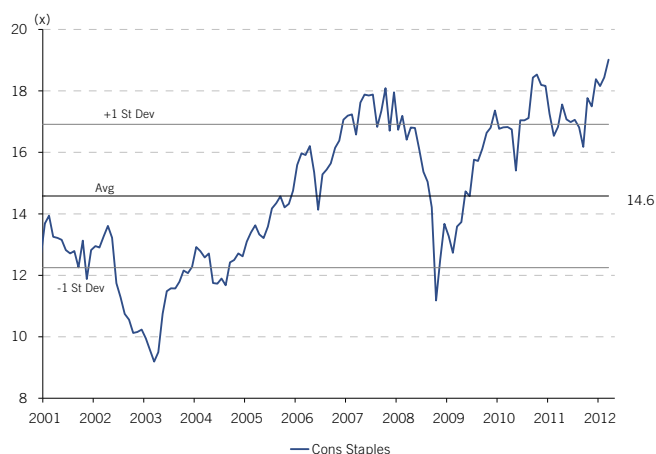
Figure 339. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

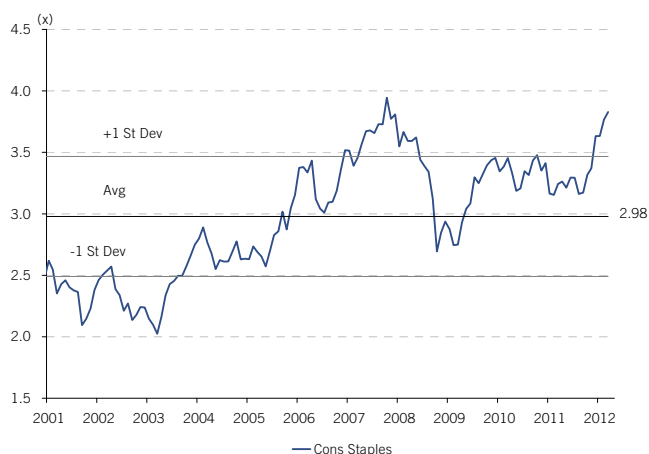


Figure 340. MSCI GEMs Sector Forward 12m P/E (Consensus)



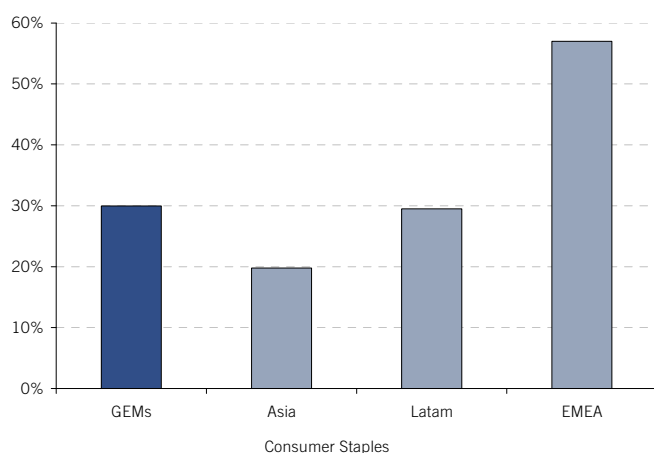
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 341. Sector Trailing P/B



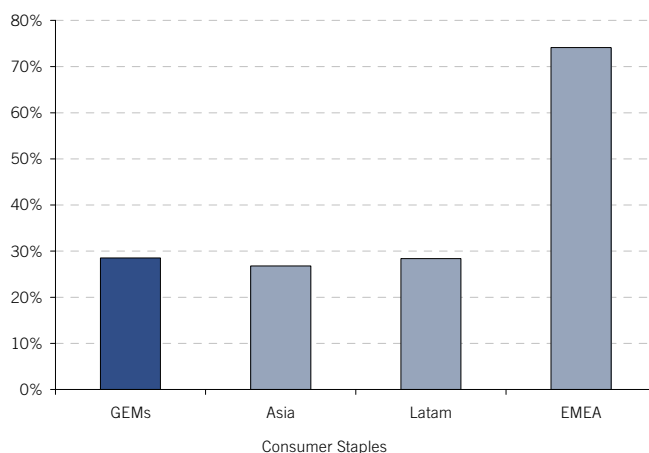
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 342. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 343. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

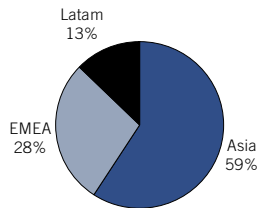
Figure 344. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country      | MSCI Market Cap (US\$, mn) | Performance |       |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|--------------|----------------------------|-------------|-------|-------|--------------|------------|---------------------|-----------|
|    |                          |              |                            | Last Q      | MTD   | YTD   |              |            |                     |           |
| 1  | AMBEV PN                 | Brazil       | 31,129                     | 14.8%       | 2.9%  | 14.8% | 27.3         | 9.2        | 23.3                | 2.8       |
| 2  | WALMART MEXICO V         | Mexico       | 20,892                     | 22.7%       | 7.3%  | 22.7% | 34.3         | 5.7        | 25.8                | 1.0       |
| 3  | FEMSA UNIT UBD           | Mexico       | 15,993                     | 18.3%       | 11.3% | 18.3% | 24.9         | 2.8        | 17.0                | 1.3       |
| 4  | BRASIL FOODS ON          | Brazil       | 12,913                     | 1.1%        | -5.6% | 1.1%  | 18.7         | 2.2        | 11.9                | 2.0       |
| 5  | ITC                      | India        | 10,046                     | 17.5%       | 5.1%  | 17.5% | 30.1         | 10.7       | 26.8                | 1.2       |
| 6  | KT&G CORP(KOREA TOBACCO) | Korea        | 7,794                      | 0.4%        | 8.4%  | 0.4%  | 12.0         | 2.2        | 10.0                | 4.0       |
| 7  | MAGNIT GDR               | Russia       | 7,668                      | 37.7%       | -1.1% | 37.7% | nm           | 5.5        | 26.4                | 0.3       |
| 8  | SHOPRITE HOLDINGS        | South Africa | 7,656                      | 6.0%        | -2.0% | 6.0%  | 26.7         | 6.9        | 19.7                | 1.8       |
| 9  | HENGAN INT'L GROUP CO    | China        | 7,456                      | 8.1%        | 11.3% | 8.1%  | nm           | 8.6        | 34.0                | 1.7       |
| 10 | HINDUSTAN UNILEVER       | India        | 6,955                      | 4.9%        | 3.8%  | 4.9%  | 33.7         | 32.7       | 30.9                | 1.7       |

Performance in USD. Source: MSCI and FactSet

## Health Care – Underweight

Figure 345. Sector Breakdown



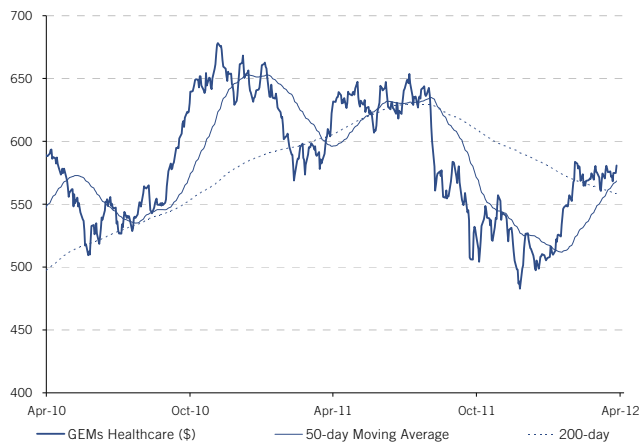
Source: MSCI, FactSet and CIRA

Figure 346. Key Metrics (MSCI Index; end-quarter)

|          | Performance |        |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|--------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |        |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD    | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 14.7%       | 0.3%   | 14.7% | 10.9%          | 3.4%  | 10.9% | 17.0        | 3.17         | 13.2% | 1.2%      |
| AC World | 6.7%        | 2.7%   | 6.7%  | 6.0%           | 2.9%  | 6.0%  | 12.3        | 2.71         | 17.2% | 2.7%      |
| Asia     | 12.5%       | 1.4%   | 12.5% | 9.7%           | 3.9%  | 9.7%  | 18.7        | 3.34         | 12.8% | 0.8%      |
| Latam    | n/a         | -10.9% | n/a   | n/a            | -5.3% | n/a   | 17.7        | 2.98         | 7.4%  | 1.4%      |
| EMEA     | 23.9%       | 3.5%   | 23.9% | 16.7%          | 6.6%  | 16.7% | 14.9        | 2.93         | 16.5% | 1.9%      |

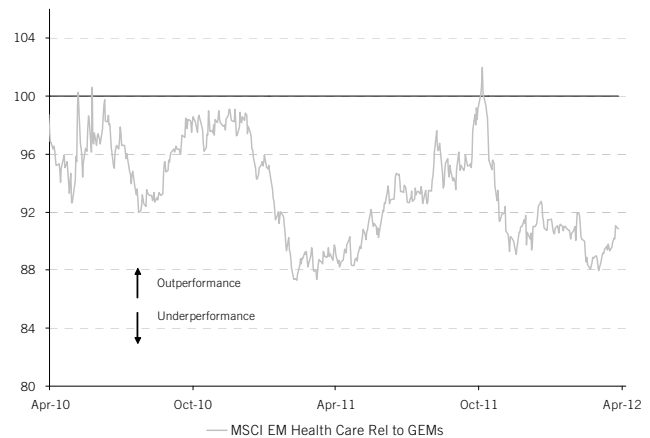
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 347. MSCI Sector Index in USD



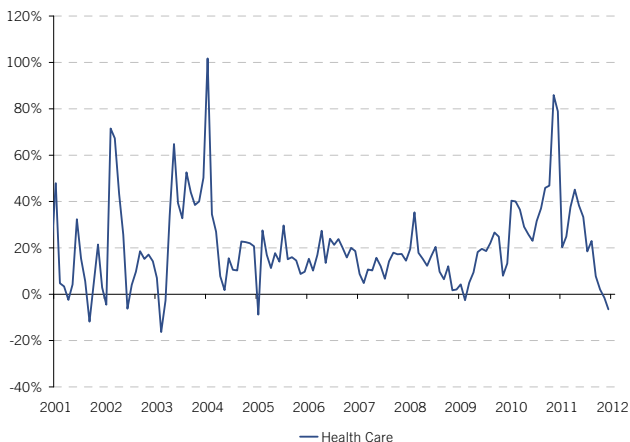
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 348. MSCI Index Relative to GEMs



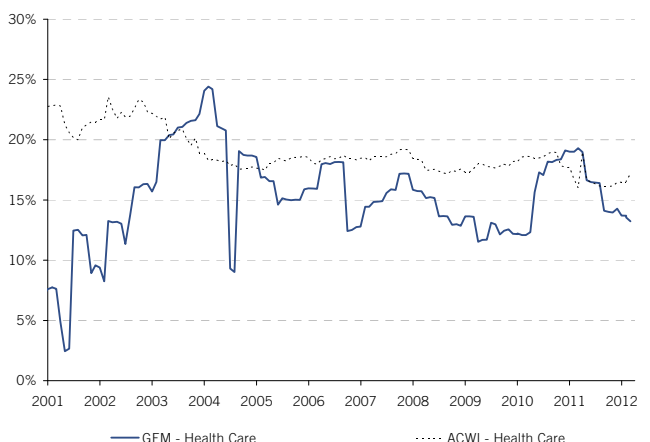
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 349. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



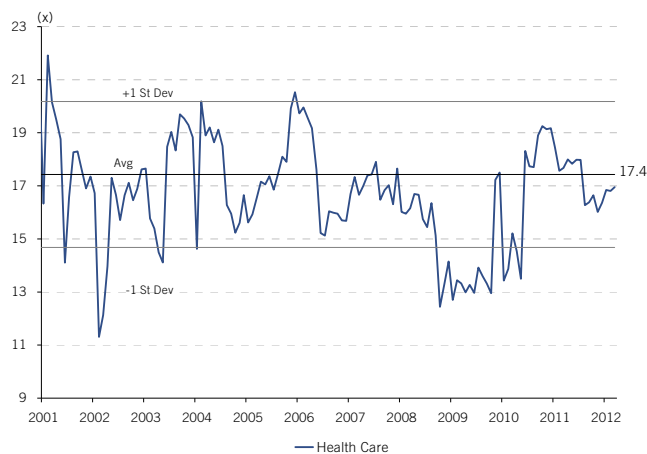
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 350. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 351. MSCI GEMs Sector Forward 12m P/E (Consensus)



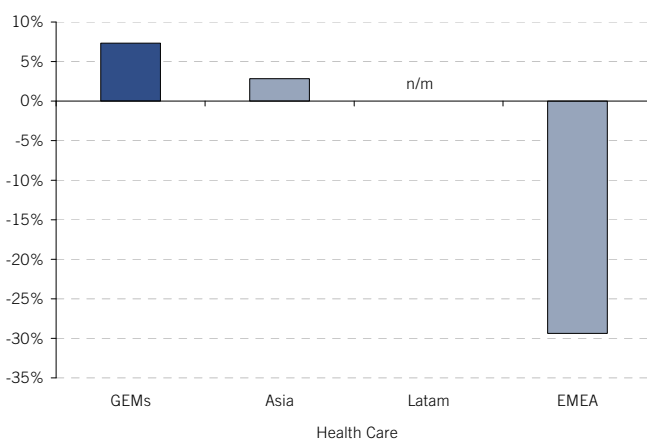
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 352. Sector Trailing P/B



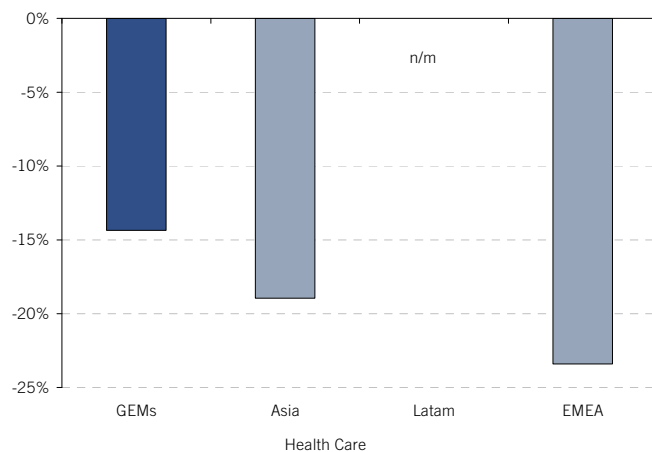
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 353. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 354. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

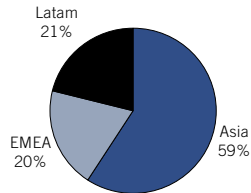
Figure 355. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country      | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|--------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|    |                          |              |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1  | ASPEN PHARMACARE HLDGS   | South Africa | 4,379                      | 29.0%       | 5.9%   | 29.0% | 21.1         | 3.3        | 17.9                | 0.9       |
| 2  | DR REDDY'S LABORATORIES  | India        | 3,521                      | 16.6%       | 3.3%   | 16.6% | 21.1         | 7.4        | 17.6                | 0.6       |
| 3  | SUN PHARMACEUTICAL IND   | India        | 3,457                      | 19.4%       | -0.4%  | 19.4% | 27.3         | 6.2        | 24.4                | 0.6       |
| 4  | RICHTER GEDEON           | Hungary      | 2,390                      | 21.2%       | -5.4%  | 21.2% | 14.2         | 1.4        | 9.5                 | 2.3       |
| 5  | LIFE HEALTHCARE GROUP    | South Africa | 2,377                      | 27.4%       | 11.6%  | 27.4% | 21.3         | 8.3        | 16.0                | 2.0       |
| 6  | CELLTRION                | Korea        | 2,280                      | 3.5%        | 4.2%   | 3.5%  | 28.0         | 4.8        | 25.7                | 0.3       |
| 7  | SINOPHARM GROUP CO H     | China        | 2,199                      | 16.3%       | 2.7%   | 16.3% | 31.0         | 2.8        | 24.8                | 0.9       |
| 8  | CIPLA                    | India        | 1,972                      | -0.6%       | -7.4%  | -0.6% | 23.4         | 3.7        | 18.5                | 0.7       |
| 9  | SHANDONG WEIGAO GP MED H | China        | 1,829                      | 26.9%       | 14.5%  | 26.9% | 20.9         | 3.9        | 19.6                | 0.9       |
| 10 | DIAGNOSTICOS AMERICA ON  | Brazil       | 1,796                      | -7.6%       | -17.6% | -7.6% | nm           | 1.7        | 20.8                | 0.7       |

Performance in USD. Source: MSCI and FactSet

## Financials – Overweight

Figure 356. Sector Breakdown



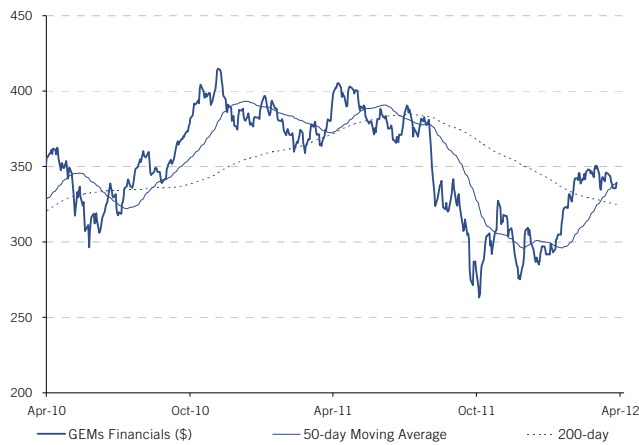
Source: MSCI, FactSet and CIRA

Figure 357. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 13.7%       | -5.2% | 13.7% | 10.7%          | -3.3% | 10.7% | 9.2         | 1.54         | 14.8% | 3.0%      |
| AC World | 16.8%       | 0.8%  | 16.8% | 15.7%          | 1.8%  | 15.7% | 10.5        | 1.05         | 8.2%  | 3.3%      |
| Asia     | 12.1%       | -5.9% | 12.1% | 10.6%          | -4.9% | 10.6% | 8.7         | 1.45         | 14.5% | 2.9%      |
| Latam    | 10.3%       | -5.8% | 10.3% | 6.8%           | -1.1% | 6.8%  | 10.4        | 1.85         | 15.4% | 3.2%      |
| EMEA     | 23.2%       | -2.6% | 23.2% | 15.6%          | -0.7% | 15.6% | 9.2         | 1.57         | 15.3% | 3.3%      |

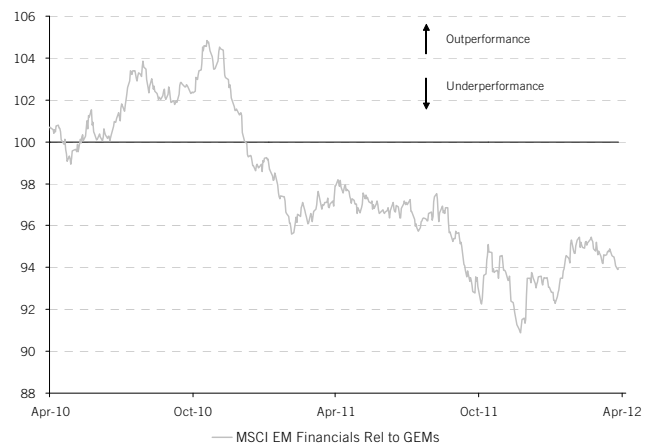
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 358. MSCI Sector Index in USD



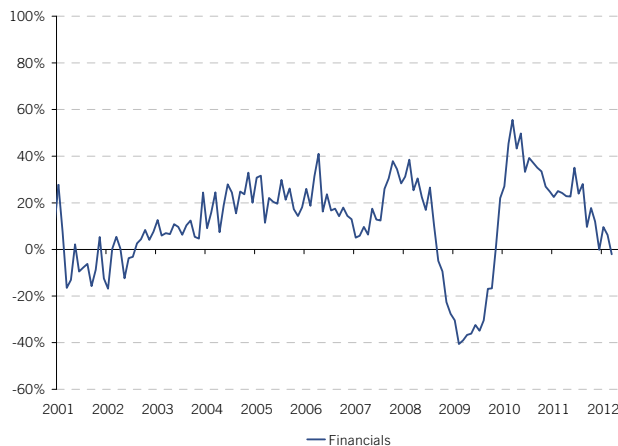
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 359. MSCI Index Relative to GEMs



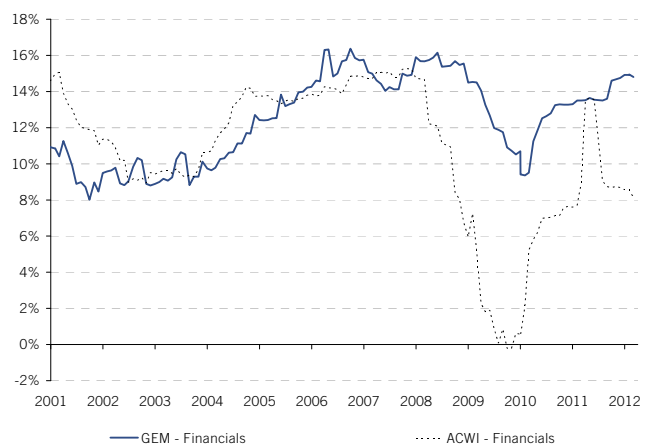
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 360. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



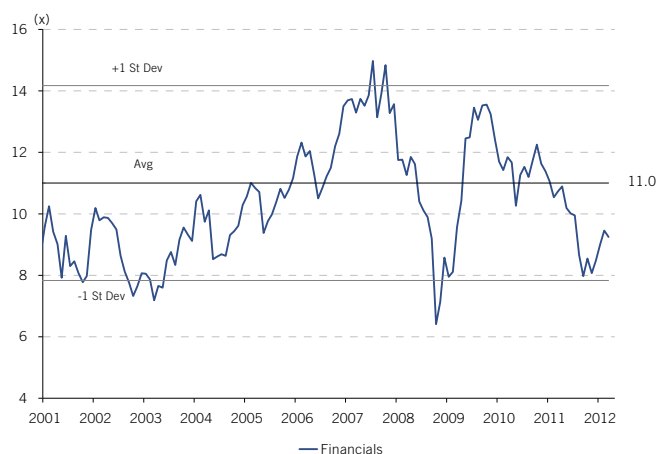
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 361. Sector ROE



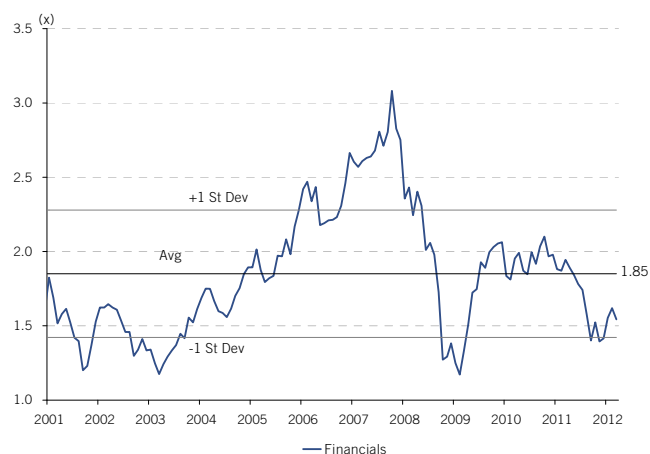
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 362. MSCI GEMs Sector Forward 12m P/E (Consensus)



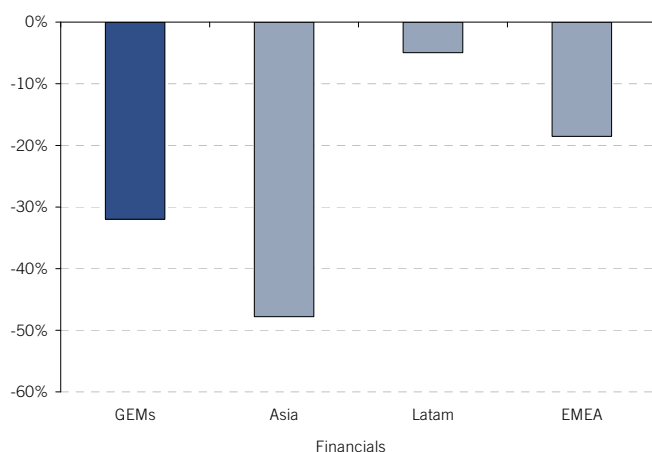
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 363. Sector Trailing P/B



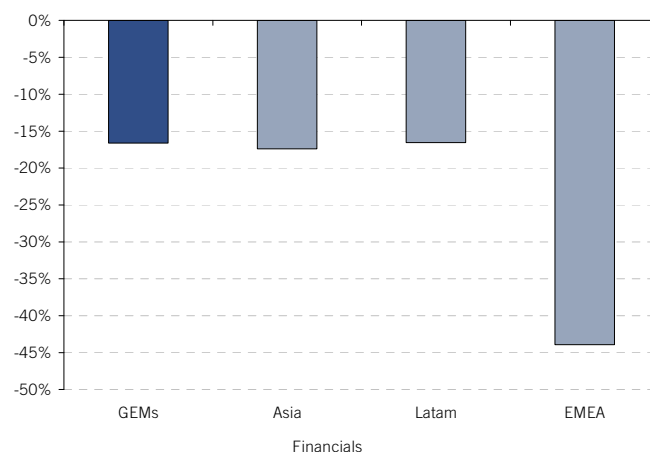
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 364. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 365. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

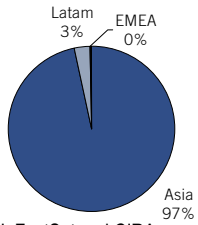
Figure 366. Key Companies (MSCI Index; end-quarter valuation data)

| Name                        | Country      | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|-----------------------------|--------------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|                             |              |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1 ITAU UNIBANCO PN          | Brazil       | 43,687                     | 5.1%        | -10.7% | 5.1%  | 10.8         | 2.2        | 3.3                 |           |
| 2 ICBC H                    | China        | 39,205                     | 8.7%        | -12.0% | 8.7%  | 7.0          | 1.6        | 5.0                 |           |
| 3 BANCO BRADESCO PN         | Brazil       | 33,430                     | 6.0%        | -3.8%  | 6.0%  | 11.0         | 2.2        | 2.6                 |           |
| 4 SBERBANK RUSSIA COM(RUB)  | Russia       | 27,817                     | 30.3%       | -6.1%  | 30.3% | 6.2          | 1.7        | 1.0                 |           |
| 5 BANK OF CHINA H           | China        | 26,969                     | 9.5%        | -7.5%  | 9.5%  | 5.8          | 1.0        | 5.8                 |           |
| 6 CHINA LIFE INSURANCE H    | China        | 19,312                     | 5.0%        | -16.8% | 5.0%  | 18.2         | 2.6        | 2.4                 |           |
| 7 STANDARD BANK GROUP       | South Africa | 17,287                     | 18.6%       | -2.2%  | 18.6% | 13.2         | 1.8        | 3.8                 |           |
| 8 SHINHAN FINANCIAL GROUP   | Korea        | 16,479                     | 11.9%       | -0.2%  | 11.9% | 8.0          | 0.8        | 1.7                 |           |
| 9 HDFC BANK                 | India        | 15,505                     | 27.0%       | -3.3%  | 27.0% | 24.9         | 4.7        | 0.6                 |           |
| 10 HOUSING DEV FINANCE CORP | India        | 14,376                     | 7.6%        | -2.3%  | 7.6%  | 20.1         | 4.7        | 1.3                 |           |

Performance in USD. Source: MSCI and FactSet

## Information Technology – Neutral

Figure 367. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 368. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |       |           |
| GEMs     | 21.0%       | 0.9%  | 21.0% | 18.3%          | 2.1%  | 18.3% | 13.2        | 2.35         | 13.2% | 2.3%      |
| AC World | 19.9%       | 4.1%  | 19.9% | 19.9%          | 4.4%  | 19.9% | 13.3        | 2.96         | 17.8% | 1.4%      |
| Asia     | 20.9%       | 1.2%  | 20.9% | 18.2%          | 2.2%  | 18.2% | 13.3        | 2.30         | 12.9% | 2.2%      |
| Latam    | 24.5%       | -5.2% | 24.5% | 21.8%          | 0.8%  | 21.8% | 16.0        | 15.83        | 83.9% | 4.2%      |
| EMEA     | 13.2%       | -8.5% | 13.2% | 2.8%           | -7.2% | 2.8%  | 10.6        | 0.80         | 8.2%  | 3.6%      |

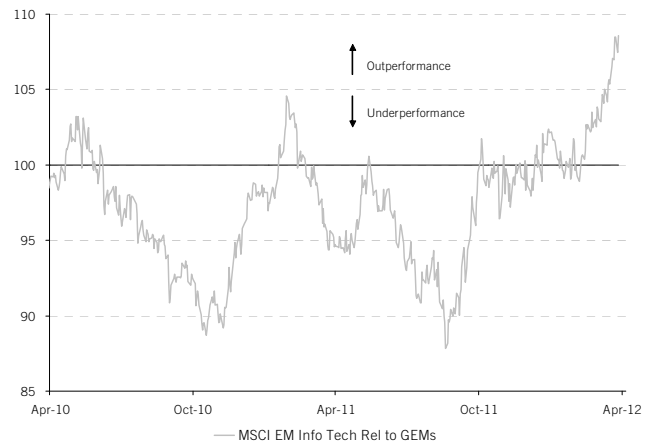
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 369. MSCI Sector Index in USD



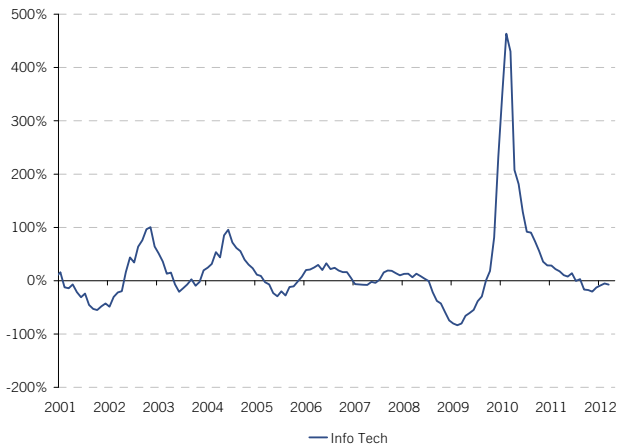
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 370. MSCI Index Relative to GEMs



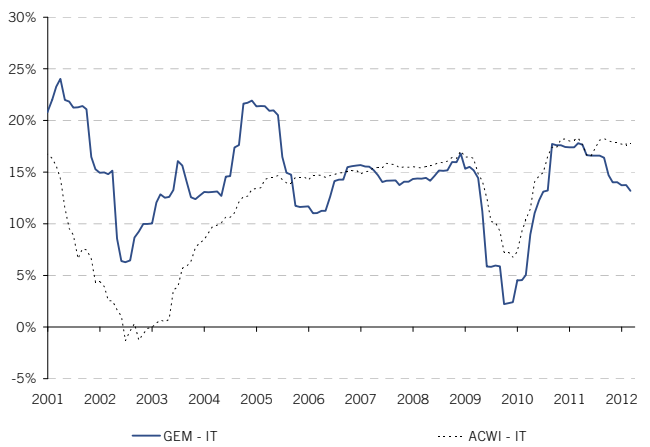
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 371. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



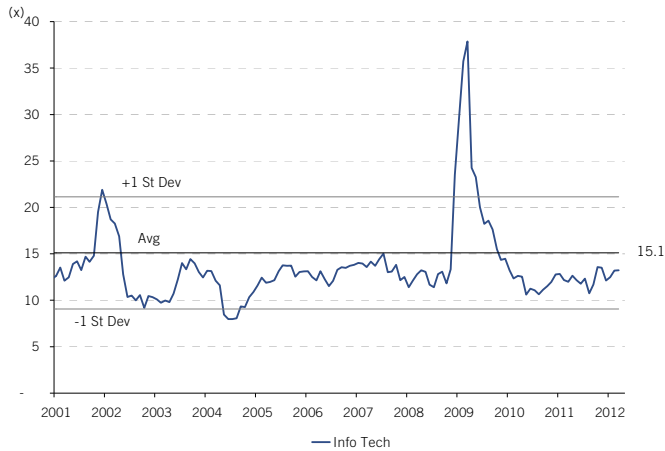
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 372. Sector ROE



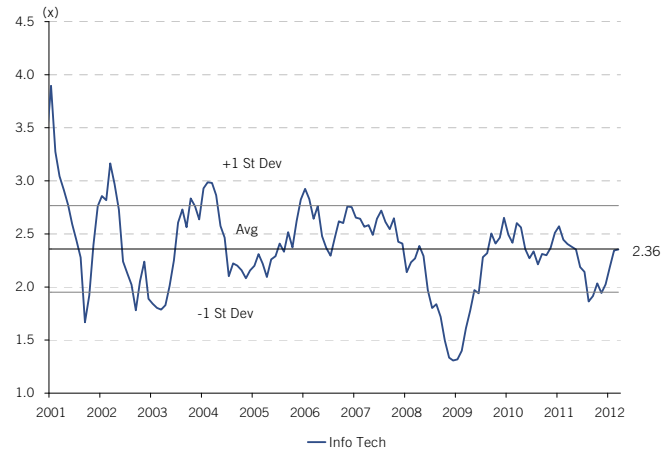
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 373. MSCI GEMs Sector Forward 12m P/E (Consensus)



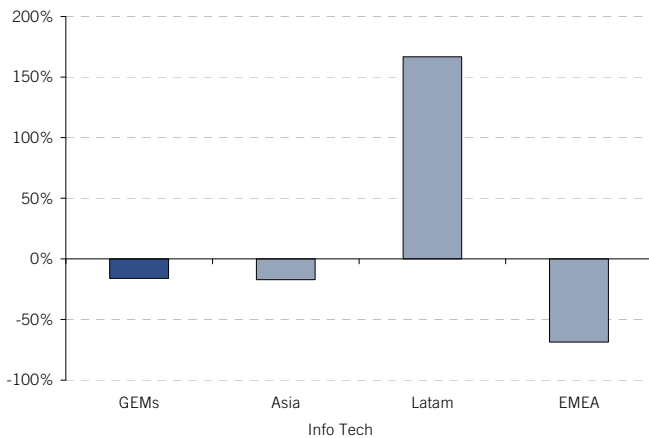
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 374. Sector Trailing P/B



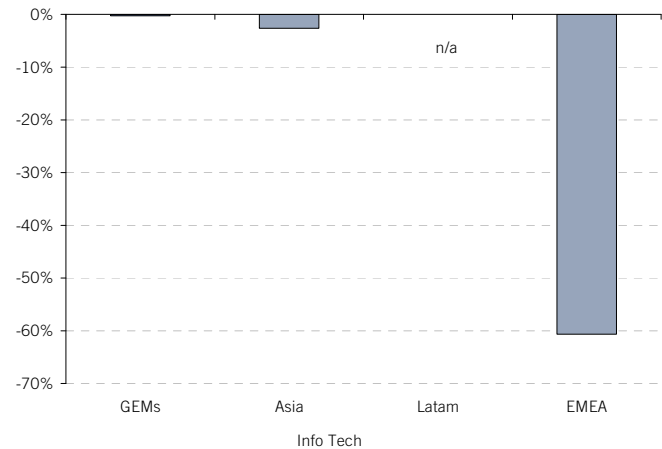
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 375. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 376. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

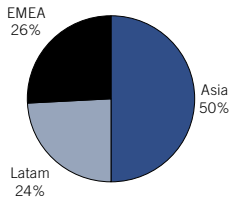
Figure 377. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country | MSCI Market Cap (US\$, mn) | Performance |        |       | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|---------|----------------------------|-------------|--------|-------|--------------|------------|---------------------|-----------|
|    |                          |         |                            | Last Q      | MTD    | YTD   |              |            |                     |           |
| 1  | SAMSUNG ELECTRONICS CO   | Korea   | 124,315                    | 22.5%       | 4.4%   | 22.5% | 15.0         | 2.0        | 7.8                 | 0.4       |
| 2  | TAIWAN SEMICONDUCTOR MFG | Taiwan  | 70,817                     | 14.9%       | 4.3%   | 14.9% | 16.4         | 3.5        | 9.1                 | 3.5       |
| 3  | HON HAI PRECISION IND CO | Taiwan  | 35,248                     | 41.7%       | 11.3%  | 41.7% | 16.7         | 2.4        | 10.4                | 0.9       |
| 4  | TENCENT HOLDINGS LIM(CN) | China   | 28,226                     | 38.8%       | 7.1%   | 38.8% | 31.6         | 11.3       | 26.6                | 0.3       |
| 5  | INFOSYS                  | India   | 24,229                     | 8.0%        | -4.4%  | 8.0%  | 20.9         | 6.3        | 18.8                | 1.2       |
| 6  | HTC CORP                 | Taiwan  | 14,821                     | 23.2%       | -10.0% | 23.2% | 8.2          | 5.0        | 7.9                 | 6.2       |
| 7  | SAMSUNG ELECTRONICS PREF | Korea   | 14,419                     | 21.2%       | 12.0%  | 21.2% | 9.3          | 1.3        | 4.9                 | 0.7       |
| 8  | HYNIX SEMICONDUCTOR      | Korea   | 13,437                     | 35.5%       | -4.4%  | 35.5% | nm           | 1.9        | 5.2                 | 0.0       |
| 9  | TATA CONSULTANCY         | India   | 10,777                     | 5.0%        | -8.0%  | 5.0%  | 22.6         | 9.3        | 20.7                | 1.5       |
| 10 | MEDIATEK INC             | Taiwan  | 9,885                      | 4.4%        | -6.5%  | 4.4%  | 17.8         | 3.2        | 15.3                | 7.1       |

Performance in USD. Source: MSCI and FactSet

## Telecommunications Services – Underweight

Figure 378. Sector Breakdown



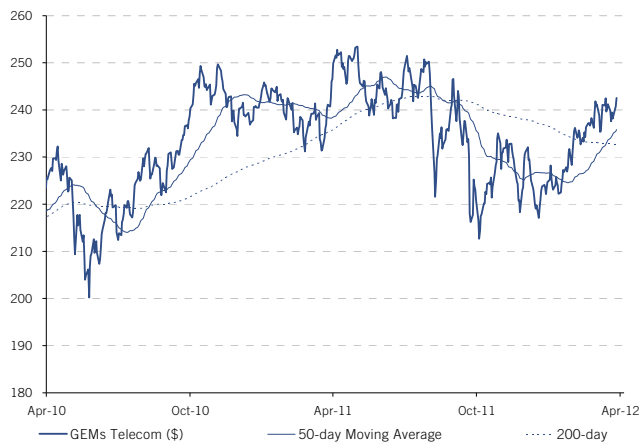
Source: MSCI, FactSet and CIRA

Figure 379. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |      | Valuation   |              |       |           |
|----------|-------------|-------|-------|----------------|-------|------|-------------|--------------|-------|-----------|
|          | US\$        |       |       | Local Currency |       |      | Forward P/E | Trailing P/B | ROE   | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD  |             |              |       |           |
| GEMs     | 7.6%        | 0.0%  | 7.6%  | 4.2%           | 1.3%  | 4.2% | 11.6        | 2.23         | 15.6% | 3.9%      |
| AC World | 1.8%        | -0.1% | 1.8%  | 0.5%           | 0.6%  | 0.5% | 11.6        | 1.72         | 11.9% | 5.5%      |
| Asia     | 5.1%        | -0.1% | 5.1%  | 4.1%           | 0.6%  | 4.1% | 12.8        | 2.06         | 14.5% | 3.8%      |
| Latam    | 11.7%       | 3.2%  | 11.7% | 4.5%           | 5.2%  | 4.5% | 9.4         | 2.44         | 17.0% | 2.9%      |
| EMEA     | 9.0%        | -2.8% | 9.0%  | 4.1%           | -1.0% | 4.1% | 10.6        | 2.43         | 17.1% | 5.0%      |

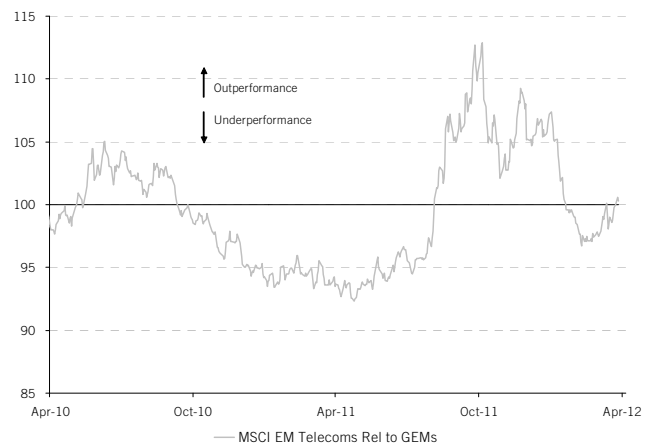
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 380. MSCI Sector Index in USD



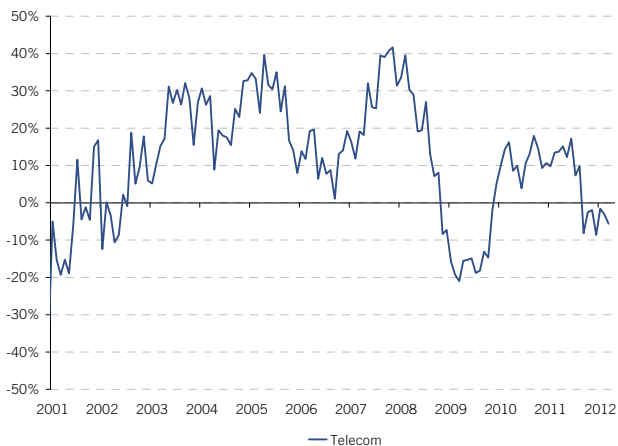
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 381. MSCI Index Relative to GEMs



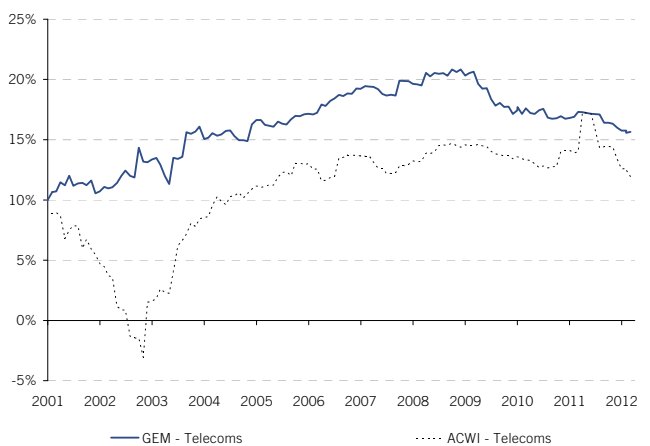
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 382. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 383. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

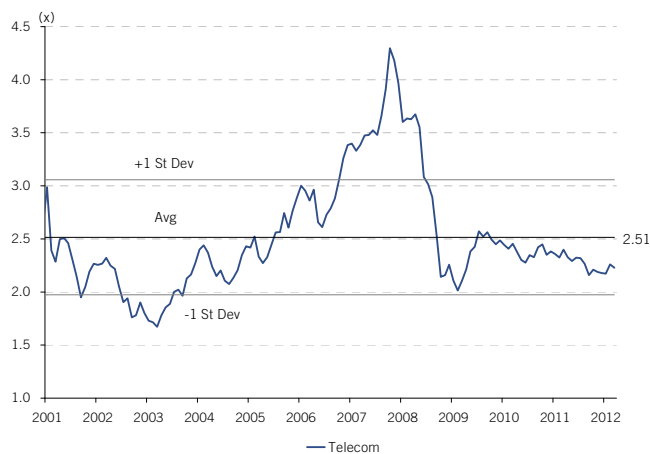


Figure 384. MSCI GEMs Sector Forward 12m P/E (Consensus)



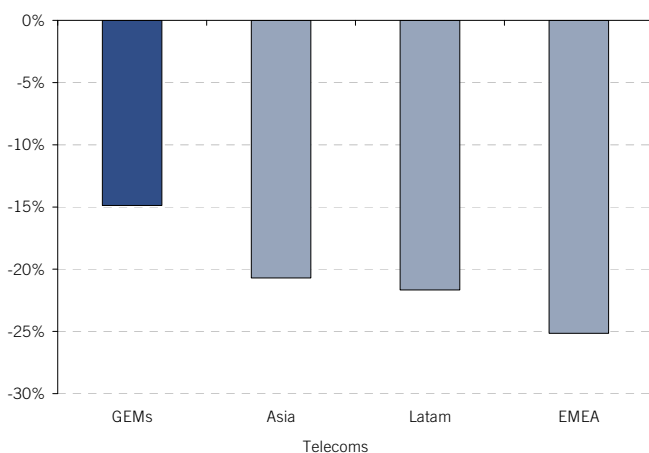
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 385. Sector Trailing P/B



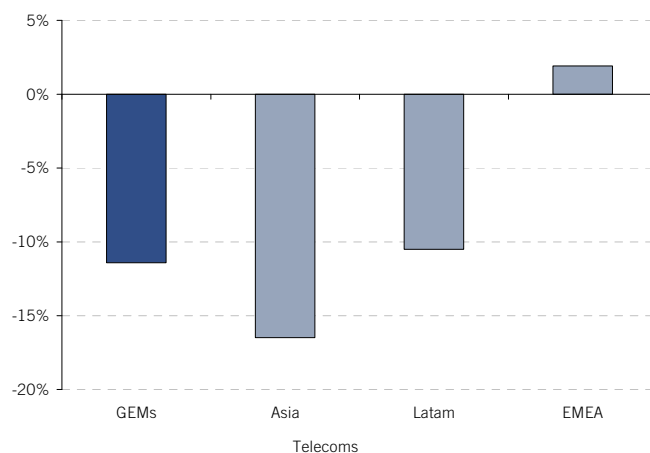
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 386. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 387. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

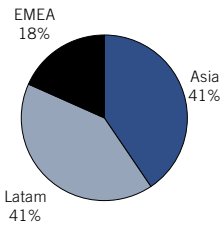
Figure 388. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country      | MSCI Market Cap (US\$, mn) | Performance |       |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|--------------|----------------------------|-------------|-------|--------|--------------|------------|---------------------|-----------|
|    |                          |              |                            | Last Q      | MTD   | YTD    |              |            |                     |           |
| 1  | CHINA MOBILE             | China        | 66,270                     | 12.6%       | 3.0%  | 12.6%  | 11.1         | 2.1        | 6.2                 | 3.9       |
| 2  | AMERICA MOVIL L          | Mexico       | 49,326                     | 9.7%        | 2.9%  | 9.7%   | 14.8         | 4.3        | 6.9                 | 1.1       |
| 3  | MTN GROUP                | South Africa | 29,844                     | -1.2%       | -3.1% | -1.2%  | 12.8         | 2.9        | 7.2                 | 5.5       |
| 4  | CHUNGHWA TELECOM CO      | Taiwan       | 11,707                     | -6.7%       | 0.1%  | -6.7%  | 14.7         | 2.0        | 8.7                 | 6.1       |
| 5  | CHINA UNICOM             | China        | 9,986                      | -19.4%      | -6.1% | -19.4% | nm           | 1.2        | 7.3                 | 0.7       |
| 6  | MOBILE TELESYS ADR (USD) | Russia       | 9,475                      | 24.9%       | 0.5%  | 24.9%  | 13.1         | 5.4        | 5.0                 | 5.7       |
| 7  | TELEF BRASIL PN          | Brazil       | 9,215                      | 11.3%       | 3.4%  | 11.3%  | 14.6         | 1.5        | 7.1                 | 9.8       |
| 8  | TELEKOMUNIKASI INDONESIA | Indonesia    | 7,717                      | -1.5%       | -2.1% | -1.5%  | 12.4         | 3.0        | 5.4                 | 4.6       |
| 9  | CHINA TELECOM CORP H     | China        | 7,686                      | -2.7%       | -9.4% | -2.7%  | 17.1         | 1.2        | 4.2                 | 2.0       |
| 10 | ROSTELECOM COMMON (RUB)  | Russia       | 6,465                      | 3.0%        | -3.0% | 3.0%   | 13.3         | 1.7        | 4.9                 | 0.0       |

Performance in USD. Source: MSCI and FactSet

## Utilities – Underweight

Figure 389. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 390. Key Metrics (MSCI Index; end-quarter)

|          | Performance |       |       |                |       |       | Valuation   |              |      |           |
|----------|-------------|-------|-------|----------------|-------|-------|-------------|--------------|------|-----------|
|          | US\$        |       |       | Local Currency |       |       | Forward P/E | Trailing P/B | ROE  | Div Yield |
|          | Last Q      | MTD   | YTD   | Last Q         | MTD   | YTD   |             |              |      |           |
| GEMs     | 12.3%       | -3.1% | 12.3% | 8.2%           | -0.3% | 8.2%  | 11.9        | 1.11         | 7.3% | 2.9%      |
| AC World | 2.3%        | -0.1% | 2.3%  | 1.5%           | 0.6%  | 1.5%  | 14.5        | 1.29         | 5.3% | 4.7%      |
| Asia     | 10.3%       | -3.0% | 10.3% | 8.1%           | -1.3% | 8.1%  | 13.6        | 1.14         | 4.1% | 2.0%      |
| Latam    | 14.3%       | -2.5% | 14.3% | 10.2%          | 2.3%  | 10.2% | 11.9        | 1.31         | 9.7% | 4.0%      |
| EMEA     | 12.5%       | -4.5% | 12.5% | 4.0%           | -3.8% | 4.0%  | 10.2        | 0.78         | 8.9% | 2.9%      |

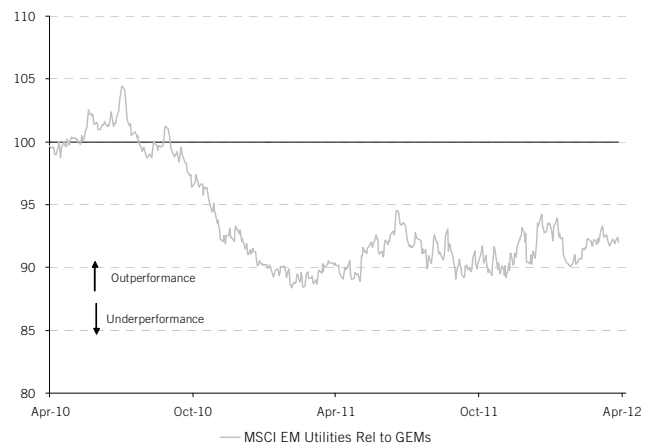
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 391. MSCI Sector Index in USD



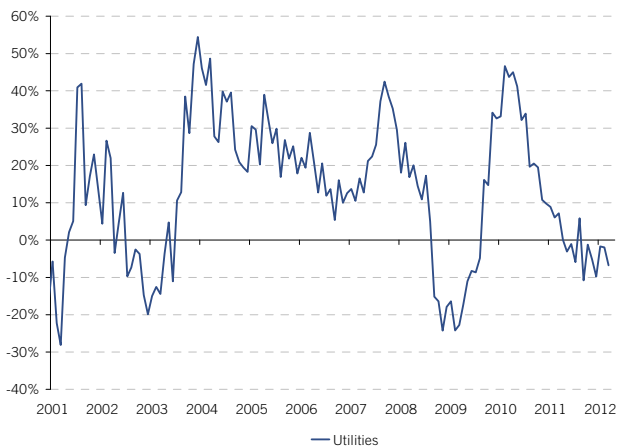
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 392. MSCI Index Relative to GEMs



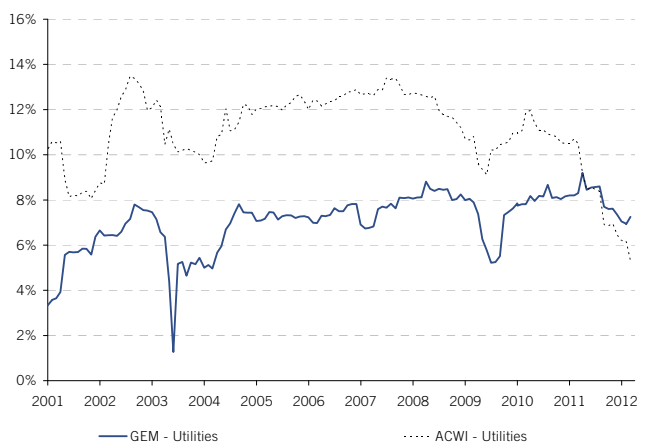
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 393. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



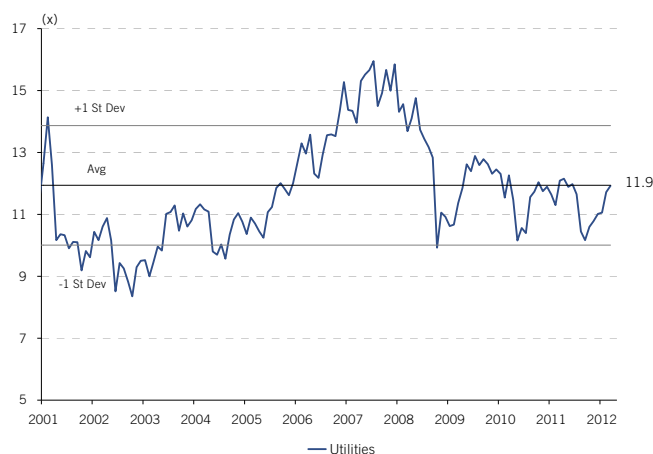
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 394. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 395. MSCI GEMs Sector Forward 12m P/E (Consensus)



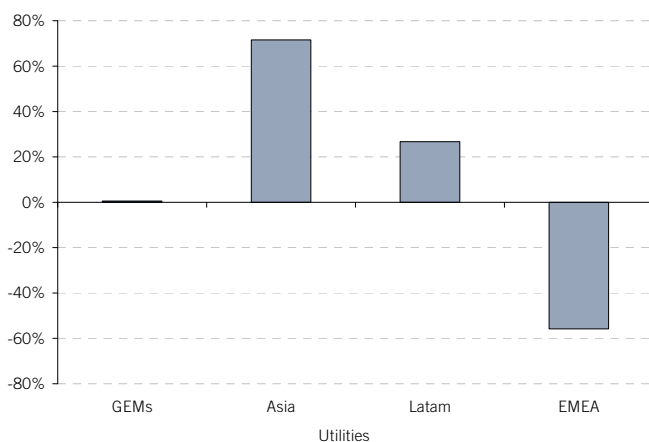
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 396. Sector Trailing P/B



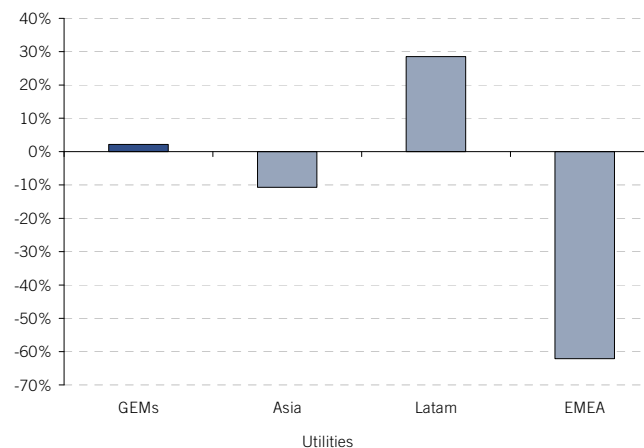
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 397. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 398. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 399. Key Companies (MSCI Index; end-quarter valuation data)

|    | Name                     | Country     | MSCI Market Cap (US\$, mn) | Performance |        |        | Trailing P/E | Price/Book | Price/Cash Earnings | Div Yield |
|----|--------------------------|-------------|----------------------------|-------------|--------|--------|--------------|------------|---------------------|-----------|
|    |                          |             |                            | Last Q      | MTD    | YTD    |              |            |                     |           |
| 1  | CEMIG PN                 | Brazil      | 9,183                      | 34.0%       | 4.2%   | 34.0%  | 11.0         | 2.3        | 8.0                 | 2.9       |
| 2  | CEZ CESKE ENER. ZAVODY   | Czech Repub | 6,905                      | 6.9%        | -1.2%  | 6.9%   | 10.5         | 1.9        | 6.4                 | 6.3       |
| 3  | ENDESA (CHILE)           | Chile       | 5,911                      | 22.2%       | 1.8%   | 22.2%  | 16.1         | 2.8        | 11.6                | 0.6       |
| 4  | TENAGA NASIONAL          | Malaysia    | 5,727                      | 12.8%       | 0.1%   | 12.8%  | nm           | 1.2        | 9.7                 | 0.5       |
| 5  | ENERSIS                  | Chile       | 5,300                      | 15.4%       | -0.7%  | 15.4%  | 17.2         | 1.7        | 8.1                 | 3.0       |
| 6  | KEPCO KOREA ELECT. POWER | Korea       | 5,077                      | -10.9%      | -11.9% | -10.9% | nm           | 0.3        | 2.7                 | 0.0       |
| 7  | POLSKA GRUPA ENER        | Poland      | 4,626                      | 2.6%        | -4.2%  | 2.6%   | 7.3          | 0.9        | 4.7                 | 3.4       |
| 8  | PERUSAHAAN GAS NEGARA    | Indonesia   | 4,533                      | 18.7%       | 0.0%   | 18.7%  | 15.2         | 6.4        | 11.9                | 4.1       |
| 9  | SABESP ON                | Brazil      | 4,350                      | 36.9%       | 1.1%   | 36.9%  | 12.3         | 1.5        | 8.0                 | 3.6       |
| 10 | RUSHYDRO (RUB)           | Russia      | 4,283                      | 22.7%       | -9.2%  | 22.7%  | 20.4         | 0.6        | 11.7                | 0.8       |

Performance in USD. Source: MSCI and FactSet

## Emerging Markets: Country and Sector Weights

Figure 400. MSCI Matrix (end Q1 2012)

|                     |       | Energy | Materials | Industrials | Consumer<br>Disc | Cons<br>Staples | Health Care | Financials | Info Tech | Telecom | Utilities |
|---------------------|-------|--------|-----------|-------------|------------------|-----------------|-------------|------------|-----------|---------|-----------|
|                     | 100.0 | 13.9   | 12.9      | 6.7         | 7.9              | 8.0             | 1.0         | 23.8       | 13.9      | 8.0     | 3.7       |
| <b>Brazil</b>       | 14.8  | 3.1    | 3.0       | 0.5         | 0.6              | 1.8             | 0.1         | 3.6        | 0.5       | 0.6     | 1.0       |
| <b>Chile</b>        | 1.8   |        | 0.4       | 0.3         | 0.1              | 0.2             |             | 0.3        |           | 0.1     | 0.4       |
| <b>China</b>        | 17.2  | 3.2    | 0.9       | 1.2         | 1.0              | 1.0             | 0.1         | 5.9        | 1.2       | 2.3     | 0.4       |
| <b>Colombia</b>     | 1.1   | 0.4    | 0.1       |             |                  | 0.1             |             | 0.4        |           |         | 0.1       |
| <b>Czech Rep</b>    | 0.3   |        |           |             |                  |                 |             | 0.1        |           | 0.1     | 0.2       |
| <b>Egypt</b>        | 0.4   |        |           | 0.1         |                  |                 |             | 0.1        |           | 0.1     |           |
| <b>Hungary</b>      | 0.3   | 0.1    |           |             |                  |                 | 0.1         | 0.1        |           | 0.0     |           |
| <b>India</b>        | 6.5   | 0.8    | 0.6       | 0.4         | 0.6              | 0.5             | 0.3         | 1.7        | 1.1       | 0.2     | 0.3       |
| <b>Indonesia</b>    | 2.7   | 0.3    | 0.2       | 0.2         | 0.4              | 0.3             | 0.0         | 0.8        |           | 0.3     | 0.1       |
| <b>Korea</b>        | 15.1  | 0.4    | 1.8       | 2.2         | 2.5              | 0.7             | 0.1         | 2.1        | 5.0       | 0.1     | 0.2       |
| <b>Malaysia</b>     | 3.4   | 0.1    | 0.2       | 0.5         | 0.4              | 0.4             |             | 1.0        |           | 0.4     | 0.4       |
| <b>Mexico</b>       | 4.7   |        | 0.9       | 0.2         | 0.5              | 1.4             |             | 0.3        |           | 1.3     |           |
| <b>Morocco</b>      | 0.1   |        |           |             |                  |                 |             | 0.1        |           | 0.1     |           |
| <b>Peru</b>         | 0.7   |        | 0.4       |             |                  |                 |             | 0.2        |           |         |           |
| <b>Philippines</b>  | 0.8   |        |           | 0.2         | 0.0              | 0.1             |             | 0.3        |           | 0.1     | 0.1       |
| <b>Poland</b>       | 1.4   | 0.2    | 0.2       |             | 0.0              | 0.0             |             | 0.6        | 0.0       | 0.1     | 0.2       |
| <b>Russia</b>       | 6.6   | 3.9    | 0.7       |             |                  | 0.2             |             | 1.0        |           | 0.5     | 0.3       |
| <b>South Africa</b> | 7.6   | 0.7    | 1.6       | 0.4         | 1.1              | 0.5             | 0.2         | 2.0        |           | 1.0     |           |
| <b>Taiwan</b>       | 11.0  | 0.1    | 1.5       | 0.4         | 0.4              | 0.3             |             | 1.6        | 6.2       | 0.5     |           |
| <b>Thailand</b>     | 2.1   | 0.6    | 0.3       |             | 0.0              | 0.2             |             | 0.7        |           | 0.1     | 0.0       |
| <b>Turkey</b>       | 1.4   | 0.1    | 0.1       | 0.1         | 0.1              | 0.2             |             | 0.7        |           | 0.2     |           |

Source: MSCI, FactSet and Citi Investment Research and Analysis

## Appendix: Asset Allocation Methodology

Our GEM Allocation models rank the attractiveness of the three EM regions, the countries and the sectors that are included in the MSCI GEMs index according to ten factors. These may be grouped into five sub-models: i) earnings/ROE; ii) valuation/momentum; iii) macro (real growth and interest rate); iv) beta; and v) a qualitative input. Within each sub-model, some countries will of course score more highly on certain factors than on others. We weight each of these individual factors and then aggregate to produce overall rankings. In this report, we have made some adjustments to the definitions of some of these model factors<sup>12</sup>.

The ten factors in each model are as follows:

- **Earnings Growth**, calculated as the weighted average of dollar EPS growth rates over three periods: short-term IBES forecasts (50% weight), forward 3-year CAGR (30%) and 5-year historical average (20%);
- **Earnings Momentum** (rate of change of earnings), calculated as a weighted average of six-month (50% weight), three-month (30%) and one-month (20%) measures;
- **Earnings Revision Index (ERI)**, measured as upgrades (to earnings forecasts) minus downgrades, as a proportion of total estimate changes 'across the market', not just CIRA estimates;
- **Rate of Return on Equity (ROE)**, measured as the deviation of a country's ROE from its long-term average;
- **Price Momentum**, measured as a weighted average of changes over three months;
- **Valuation Composite**, measured as an equally-weighted average of the (1) forward P/E and (2) P/BV ratio, both compared to a market's own history, (3) dividend yield and (4) earnings yield ratio (earnings yields/bond yields), which takes into consideration the cost of capital;
- **Beta**, which will be entered into the model as a positive (high beta is positive for markets) or a negative relationship (high beta is a negative for markets) based on our view of the likely short-term direction of equity markets. Currently we have a beta-on bias;
- **GDP growth**, measured as the forecast annual growth of the real GDP for the next four quarters compared to other emerging economies;
- **Interest rates**, measured as a weighted average of current real rates (policy rates) and the forecast change in nominal rates over the next four quarters;
- **Qualitative Factor**, which allows us to incorporate exogenous factors – both positive and negative – not covered in the models, such as political risk (e.g. elections), equity issuance, exposure to high risk areas of the world and one-off factors (such as the Olympics in Brazil).

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<sup>12</sup> To reiterate, the averaging process applies to rankings (rather than actual scores) in each of these models.

Notes

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## Appendix A-1

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Citi is acting as financial advisor to China Petroleum & Chemical Corp and ENN Energy Holdings in the proposed takeover of China Gas Holdings.

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A member of the household of Alexandre Garcia, is a financial analyst in Diagnosticos Da America Sa.

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A member of the household of Marcelo Inoue is employed in operational capacity in Itau Unibanco Holding SA.

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A member of the household of Andrzej Powierza, Analyst, holds a long position in the securities of PKO BP.

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|---|------------------------|-------------|-------------|------------------------|-------------|-------------|
|   | <b>Buy</b>             | <b>Hold</b> | <b>Sell</b> | <b>Buy</b>             | <b>Hold</b> | <b>Sell</b> |
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