Citi Research
Equities

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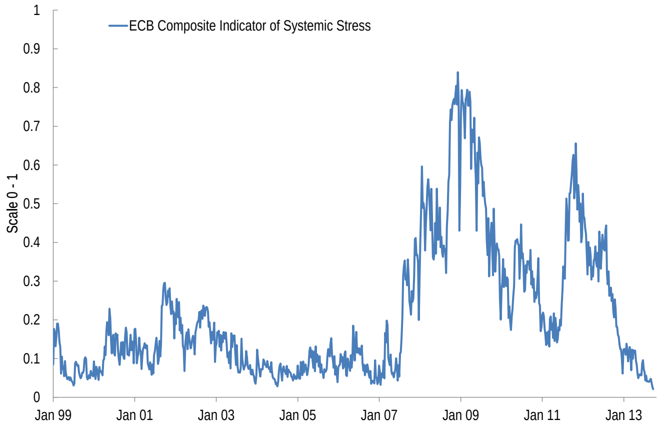
Equity Strategy
Western Europe

European Portfolio Strategist

Risk On — Move On, What Next? Risk...

- **Risk on** — Falling macro risk & rising economic optimism provided springboard for an aggressive risk rally since late June. Risk assets have led, with European equities up 15-20%. Risk & value within risk assets have done even better, eg Banks, Autos. Quality, the structural leader of the past 5-6 years, has lagged.
- **Value expensive, risk not** — The rally has driven an aggressive re-rating of value. Cheap is no longer cheap. The cheapest quintile of European stocks now trade at the top of their 25-year P/E range. Value also trades close to or at record highs against quality & risk-on P/Es and P/B. Risk cheap vs value and vs quality = risk looks cheap.
- **What to do #1** — The stand-out value opportunity = equities vs other assets. Within equities, we think earnings leadership will drive performance leadership in the coming 12-18m. Better macro likely to bring end of downgrade cycle, so investors should own high 2014-15E compound growers, eg Banks, Resources, Travel & Leisure.
- **What to do #2** — Own 're-leveraging optionality', ie companies which can benefit from economic, operational & financial leverage. 2 strategies = surplus FCF & strong balance sheets (quality) and REV (risk), ie barbell. REV = Risk, Earnings Mo & Value = Banks, Insurance & Autos. REV stocks = AXA, ING, Renault, Kering, M&S, GKN.
- **Sector changes** — We have raised exposure to financials, risk & recovery in past 12m vs more selective in defensive growth. Keep moving. For next 12-18m, we move more pro-cyclical. We lower Health Care/Media to Neutral, Food & Bev to U/weight. We raise Industrials/Real Estate/Retail to Neutral, Basic Resources to Overweight.

Figure 1. Macro Risk Down- Risk Appetite Up & Risk On



Source: Citi Research, ECB

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24th Oct — Mega-Caps
3rd Oct — If...*
19th Sep — Bull Market
16th Sep — REV It Up
12th Sep — Roadshow Highlights
5th Sep — Rerating,Restructure,Recovery
29th Aug — European Recovery
15th Aug — The Citi Income Report
1st Aug — DG vs Fins vs Offensives
25th July — How to Play Recovery in EU
18th July — Capital Allocators are Coming

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Risk On — Move On, What Next? Risk...

Interrupted by various risk/value rallies, quality has been the structural outperformer in UK/European equity markets in the past 5 years. The latest risk rally started in late June. Both risk assets and risk within risk, e.g. Spanish banks, have ripped. Quality has taken a back-seat. But, it has been a more selective and less extreme version of the 2009 risk trade (aka Survivors' Party).

As always when the sun rises on a new day, investors (and strategists) have to answer the "what to do next" question. We have been, and remain, (very) bullish on equities and have progressively raised exposure to risk (eg financials) and recovery (eg "How to Play Recovery in Europe") over the past 12-15 months. We have also lowered exposure to quality/defensive growth.

How does the recent risk/value-led market change our view on how investors should be positioned for the coming 12-18 months? Should investors chase naked risk? Is quality now the value trade? Or somewhere in between, eg barbell?

Our analysis suggests that value has re-rated aggressively, in absolute terms and against both quality and even risk. Now, cheap is not cheap on most measures. In fact, value is at or close to c20-year high valuation multiples on some measures. By contrast, quality has de-rated and now appears cheap on some measures.

Earnings leadership to determine performance leadership

But, ultimately, we think that it will be earnings leadership which determines performance leadership in the coming 12-18 months. That performance leadership should be found in risk, quality and value style buckets where there is also earnings leadership. To us, this suggests a bottom-up, not a top-down, market.

So, as the day dawns, our answer as to "what to do next" is: 1) equities remain attractive with c20+% total returns to end-2014, 2) equity investors need more 're-leveraging optionality' (or beta as a short-cut) than in the era of de-leveraging & 'quality only' leadership, 3) re-leveraging optionality should help to skew to earnings leadership = companies with exposure to economic, operational and financial leverage, 4) be wary of chasing risk only, yield only or value only strategies; look for more substance, 5) overown: a) surplus FCF & strong balance sheet combos, b) REV stocks and sectors, c) restructuring/de-equitisation, d) Citi's European Focus List, which represents a combination of our strategy views and our analysts' high conviction Buys (eg AXA, BNP, ING, Novartis, Rio Tinto, Siemens).

Health Care to Neutral and Food & Beverage to Underweight

Last, we make some changes to our European sector strategy to position for the coming 12-18 months. We also add beta as a factor to our model (10% weight). We lower Health Care to Neutral and Food & Beverage to Underweight. We keep our preference for cheaper Health Care over Food & Beverage. This continues our shift away from defensive growth which started 12-months ago. Both sectors will struggle to be part of the 2014-15 earnings leadership group, in our view, although we continue to like various stocks within these sectors (eg ABInbev, Novartis, Roche).

Real Estate, Industrials & Retail to Neutral

We raise Real Estate, Retail and Industrials to Neutral. Both are scoring well on our sector allocation model; Industrials has good earnings momentum and analysts expect 10% compound earnings growth over the next 2-years from the sector.

Basic Resources to Overweight

Last, we raise Basic Resources to Overweight. We moved the sector up from Underweight in June. Our analysts expect the sector to enjoy the highest 2014-15E compound earnings growth, alongside Technology, Banks and Travel & Leisure. We are already Overweight those three sectors. Roll the tape...

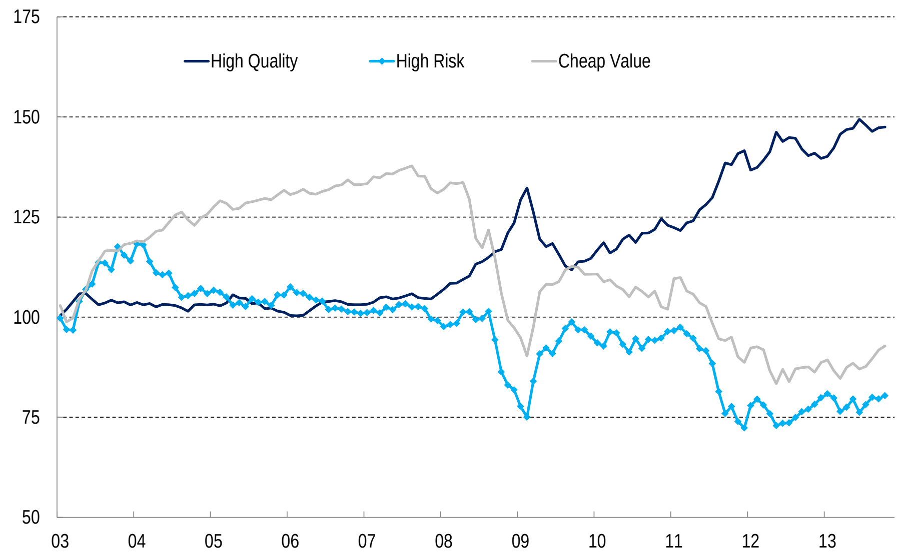
The story so far — quality vs risk/value

Investors who have backed quality (companies) will have enjoyed excellent absolute and relative returns over the past 5-6 years. Figure 2 shows the performance of three quintiles from our Quant team's style analysis — high quality, cheap value, high risk. Value dominated between 2003-07, supported by a leverage fest. Quality has dominated since then.

Quality outperformed Risk and Value in 2007-2011. Since 1Q12 they've moved broadly in line

We have run various quality strategies over the past few years, such as Quality Street, strong in strong, World Champions, Defensive Growth, QARP. But, since late-2011, we have diluted our quality bias with our barbell approach to UK/European equities. The barbell has looked to balance (acceptable) risk with quality, evolving towards more risk/less quality in recent quarters.

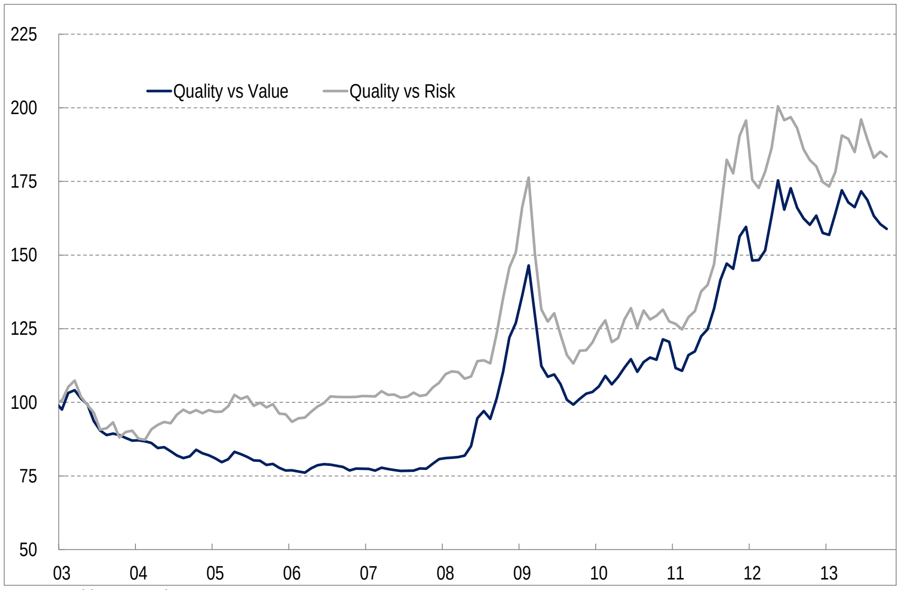
Figure 2. Quality Risk & Value — Relative Performance Since 2003 (vs MSCI Equal Weighted)



Source: Citi Research

Figure 2 shows the performance of quality relative to value and to risk. Again, the structural outperformance of quality is clear. But, performance has been similar since 1Q12. From a performance perspective, at least, the structural leadership of quality appears to have come to an end. Is there any fundamental support for this?

Figure 3. Quality — Performance Rel to Value & Risk Since 2003



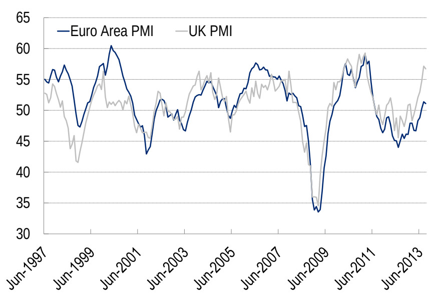
Source: Citi Research

Springboard for risk — better macro

Falling macro risk has been the foundation of our bullish view on equities and on higher exposure to risk and recovery within equity markets in recent quarters. It has also been the springboard for the recent risk/value surge in UK and European equity markets.

Higher PMIs in Europe (Figure 4) were a key factor driving our support for European recovery trades in July this year. Improving Chinese macro data, eg stronger CESI, has also helped (cheap) EM equities to perform strongly in recent months.

Figure 4. Euro Area & UK PMI



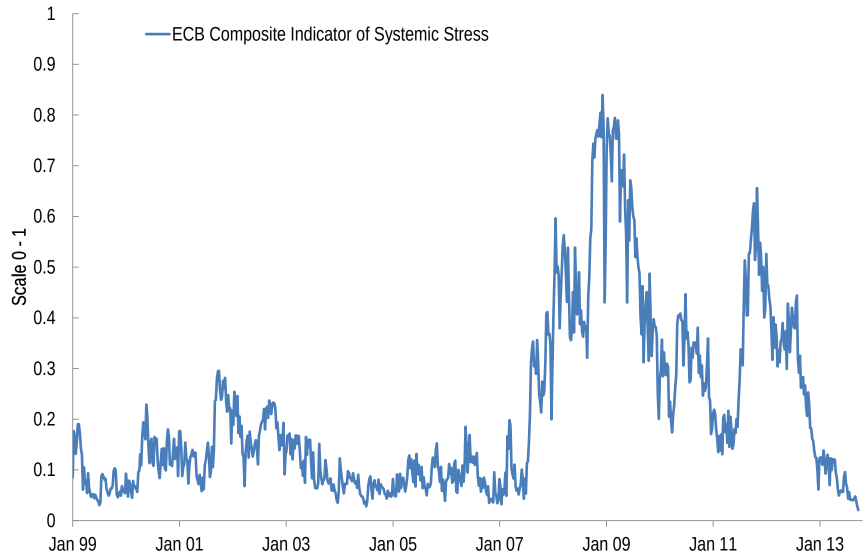
Source: Haver Anaytics

Figure 5. China CESI

Source: Datastream

Figure 6 shows another way of assessing macro risk — the ECB's composite indicator of systemic risk. This is constructed largely from a variety of financial market indicators. The indicator is at its lowest implied risk level since inception in 1999. It clearly shows the sharp fall in macro risk, that we can also highlight through improvements in peripheral current account positions, European bank capital and the US fiscal deficit.

Figure 6. ECB Composite Indicator of Systemic Stress



Source: ECB

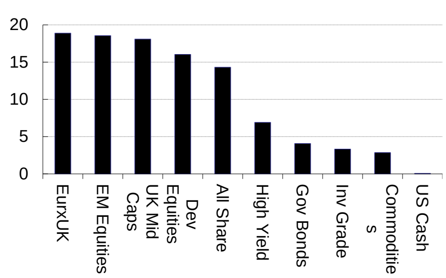
Falling macro risk a key driver of pick-up in risk appetite

Falling macro risk has, in our view, been a key driver in the synchronised pick-up in risk appetite from key economic actors: 1) capital allocators, 2) corporates, 3) investors, 4) consumers. The animal spirits are starting to emerge and to normalise. Since late-June, this has helped risk to perform strongly.

Risk on — leaders and laggards

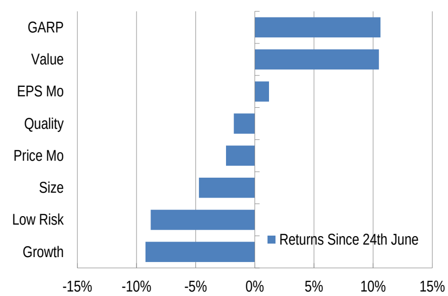
It has paid investors to take on risk in most areas in the past few months. Figure 7 shows the performance of key asset classes since 24th June this year. Europe ex-UK equities have been the best performing major asset class in this time and are up c20% in the last few months; a healthy return gap over c0% cash. EM equities and UK mid-caps have followed close behind. There is a big return drop-off to other asset classes, where high yield, ie fixed income risk, leads the also-rans.

Figure 7. Asset Returns, Since 24th June



Source: Datastream

Figure 8. Style Performance

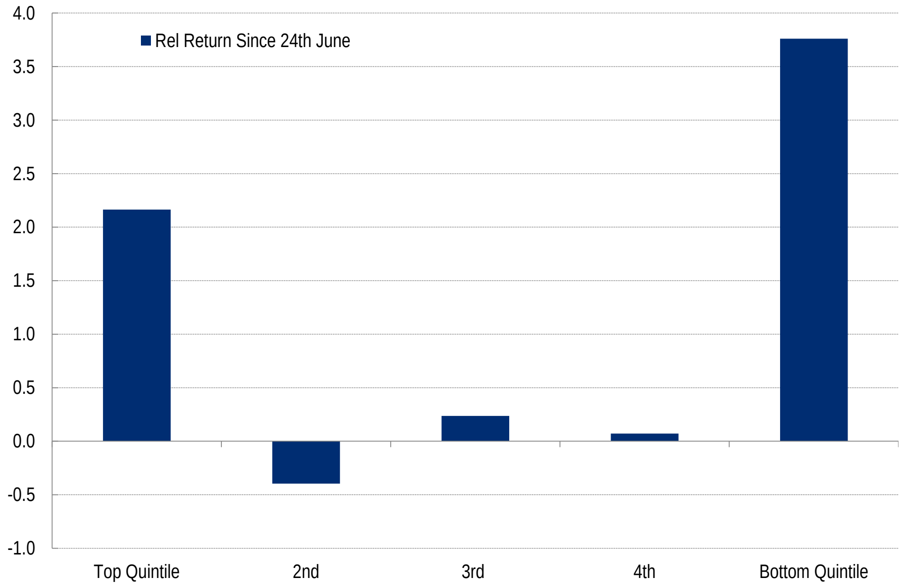


Source: Citi Research

Figure 8 shows the leading and lagging style performers since 24th June, using our Quant team's style indices. Value, GARP and Risk (ie opposite of Low Risk) have been the best performers in the last few months. Our Quant team run long-short quintiles for each style. Risk and value have led. But, it is also interesting to note that investors would have enjoyed small positive returns via Earnings Momentum and the negative returns from quality would have also been only small. This

appears to have not been a rout for fundamentally-based strategies, ie earnings, RoE, balance sheets.

Figure 9. Relative Returns By Earnings Momentum Quintile



Source: Datastream & Citi Research

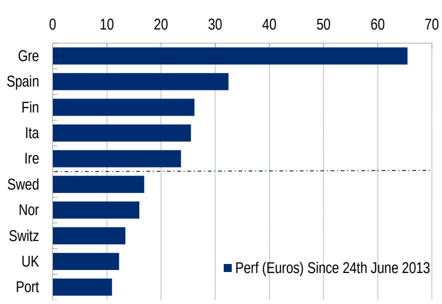
Both strongest and weakest E Mo outperformed

Our analysis, using our Forecast Monitor earnings database, backs up this result. Figure 9 shows the average post-24th June relative return for European quintiles based on earnings momentum trends in June.

Owning the best earnings momentum stocks, i.e. top quintile, in June to now would have delivered decent outperformance. This is partly due to inflection in European Financials' earnings over the last 12-months, from negative to positive. With Autos also showing positive earnings momentum relative to the market, earnings momentum investors would have owned some risk/value sectors over the past few months.

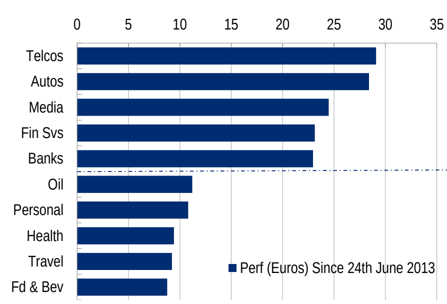
But, owning the worst earnings momentum stocks has performed better still. Both top and bottom quintiles would have beaten the rest. So, investors running a barbell of positive and negative earnings momentum stocks would have performed very well indeed.

Figure 10. Top 5/Bottom 5 Country Returns



Source: Datastream

Figure 11. Top 5/Bottom 5 Stoxx Sector Returns

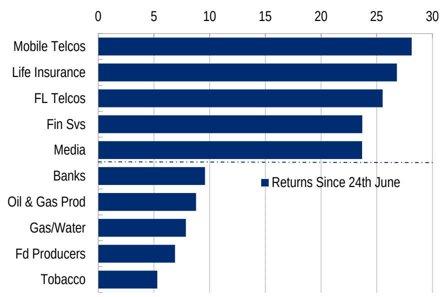


Source: Datastream

The risk/value trade can also be clearly seen elsewhere. The importance of improving Euro Area macro sentiment is shown in the country and sector leadership of the last few months. Greece, Spain, Italy and Ireland have all been leading performers since end-June, with Spain and Italy being the big turnaround stories having been significant underperformers vs. the rest of Europe in 1H13.

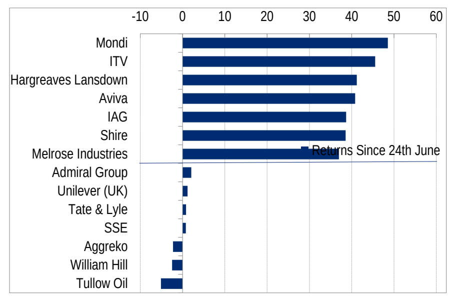
Banks, Financial Services and Autos (part Financial) joined Media and special-situation Telcos as the leading sectors. Quality and defensive growth markets and sector performed well in absolute terms, but lagged significantly in relative terms.

Figure 12. Top 5/Bottom 5 UK Sector Returns



Source: Datastream

Figure 13. Top 7/Bottom 7 FTSE 100 Returns



Source: Datastream

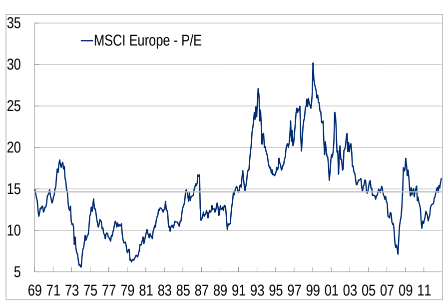
Latest risk rally has not been one-dimensional

The risk/value rally has also been seen in the UK, but with one key difference. European banks have led the recent rally. UK banks have lagged. The strong performance of Telecoms also shows clearly with Vodafone and BT both strong performers since June. Other defensive sectors have otherwise generally been laggards, but that has not stopped some stocks, such as Shire, performing strongly. Again, this shows that the latest risk rally has not been as one-dimensional as some previous ones in the last few years.

What next?

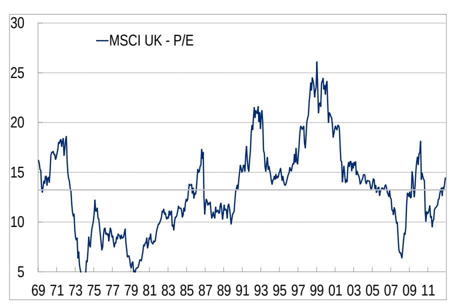
So, risk and value have been on a charge. What should investors do next? Before looking for an answer, we look at how recent performance trends have changed valuations at an asset level and within equity markets by country, style and size.

Figure 14. MSCI Europe — P/E



Source: Datastream

Figure 15. MSCI UK — P/E



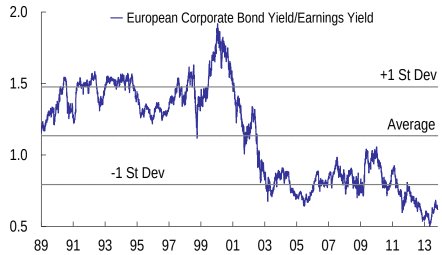
Source: Datastream

PE above LT average…

Figure 14 and Figure 15 show the long-run trailing P/Es for UK and European equity markets. The recent re-rating has driven P/Es to above 40-50 year average levels. This suggests that equities are no longer cheap and will need good news, eg profit growth, to sustain further upside from here. We think that happens in 2014-15E.

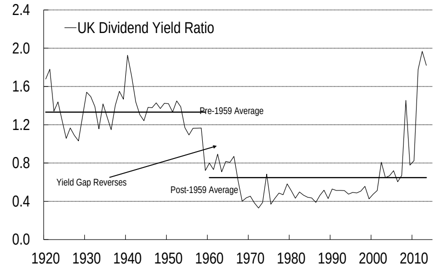
This also explains why investors (and analysts) are finding it increasingly difficult to find value in the market, especially when the cheapest part is concentrated in a few heavyweight stocks, ie mega-caps.

Figure 16. European Corporate EYR



Source: Datastream & Citi Research

Figure 17. Long Term UK DYR (vs Sovereign)



Source: Global Financial Data & Datastream

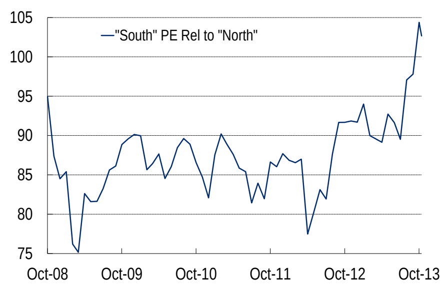
…But equities cheap against credit and government bonds

Figure 16 and Figure 17 compare equities to credit and government bonds. Despite recent strong performance, equities still look very attractive relative to fixed income (and cash). Unless interest rates normalise aggressively and quickly, which we think is unlikely, then equities continue to present the outstanding (relative) value opportunity for global investors. Citi's global asset allocation team, led by Jeremy Hale, agrees. They remain Overweight equities.

Southern comfort

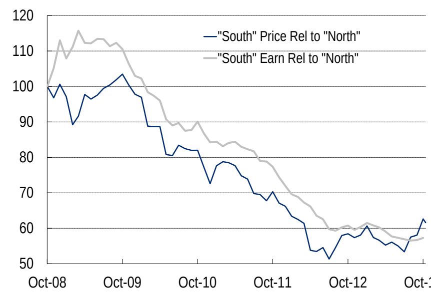
Next, we turn to within equities. First, countries. Peripheral equity markets have led the post-June charge. Reducing macro risks across the periphery and the Euro Area has been a strong driver of this performance. Even Italian politics was unable to derail these recent moves.

Figure 18. South P/E Rel to North



Source: Datastream & Citi Research

Figure 19. South P & E Rel to North

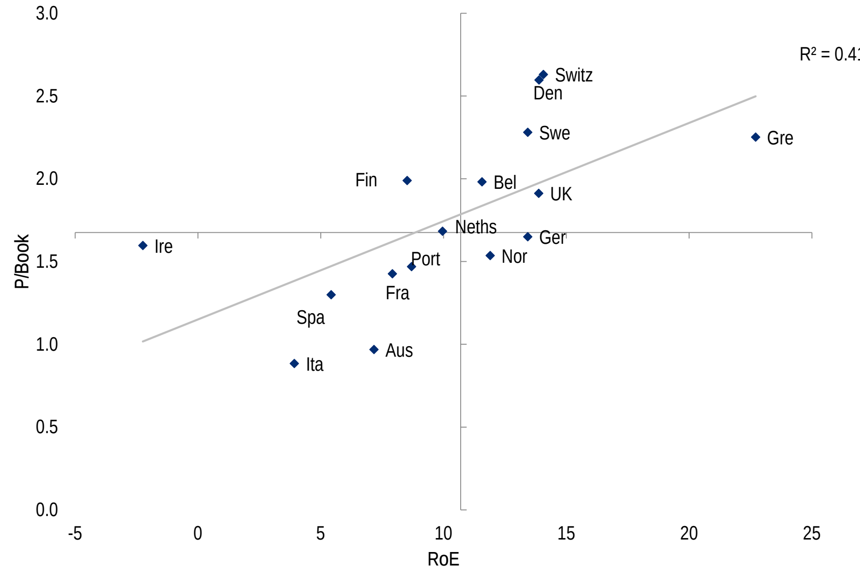


Source: Datastream & Citi Research

Figure 18 and Figure 19 shows the sharp re-rating that Southern Europe, ie the peripheral markets, have enjoyed relative to the North. The South now trades on 5-year P/E relative highs versus the North.

Recent price performance has not been supported by earnings outperformance from the South. That is what we think is needed for recent performance to become more structural. That would likely need a stronger economic recovery than our economists expect within the periphery or across the Euro Area. We don't think that investors should be taking aggressive country positions from here. For exposure to value and to an improving economy in Europe, we would continue to prefer to be Overweight Financials rather than peripheral equity markets.

Figure 20. P/Book By RoE By Country



Source: Datastream

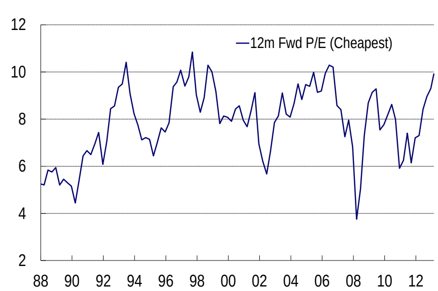
Value to be found in a mix of Southern and Northern markets

Figure 20 compares European countries' current price/book multiple and 2013E RoE. There is reasonable correlation between the two factors. This would suggest that there is value in a mix of Southern (e.g. Italy, Spain) and Northern (e.g. Germany, UK) markets rather than a big divide between the two groups. With a reduced macro risk backdrop, the previous structural leadership of long North/short South could well be at an end. This is reinforced by the bond yield spread forecasts of our rate strategists for Italy and Spain. They are targeting 10-year spreads versus Germany to move below 200 basis points over the coming 12-18 months.

Cheap is not cheap

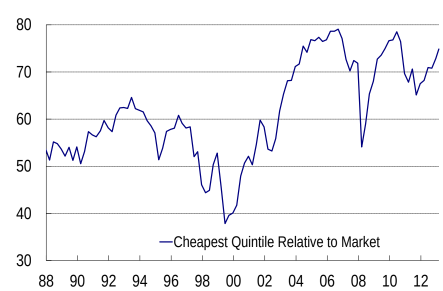
The strong risk/value rally has left its mark on style valuation charts. The following charts have been core to our evolving views over the past few years as we have looked to assess where the value is within European equities.

Figure 21. Cheapest Quintile — 12m Fwd P/E



Source: Datastream & Citi Research

Figure 22. Cheapest Quintile — P/E Rel



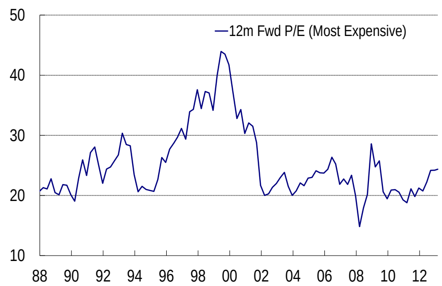
Source: Datastream & Citi Research

Cheap no longer cheap

Figure 21 shows the average 12-month forward P/E for the cheapest quintile of European stocks over the past 25 years; this is a dynamic universe. The group has traded in a P/E range of 4-10x. We are currently at the top end of the 25-year range. The cheapest stocks in Europe have rarely been more expensive in absolute P/E terms. Figure 22 shows the same group relative to the rest of the market. Similar story. The cheap part of the market looks expensive in relative terms compared to

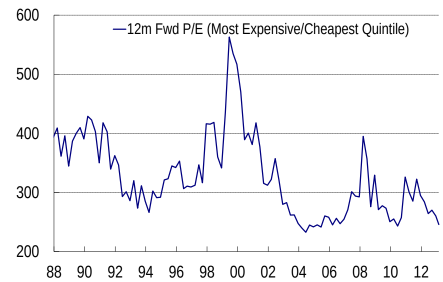
the last 25 years. Only more expensive at the end of the super-charged leverage years of 2003-07 and at the end of the violent 2009-10 recovery rally.

Figure 23. Most Expensive — 12m Fwd P/E



Source: Datastream & Citi Research

Figure 24. Most Expensive vs Cheapest Quintile



Source: Datastream & Citi Research

Figure 23 shows the average 12-month forward P/E for the most expensive quintile of European stocks. This group has also been re-rated in the last year from 20x to 24-25x. That sounds expensive, but is mid-range compared the last 25 years when excluding the TMT boom years.

This means that when comparing expensive cheap to mid-range expensive expensive, you get cheap expensive. Confused? Figure 24 should help. This plots the expensive quintile relative to the cheap quintile. The expensive group is actually trading close to 25-year lows relative the cheap group. So, while cheap is not cheap in absolute terms, expensive is cheap in relative terms.

What happens next? We continue to believe that there will be strong performance from both the cheap and expensive groups above; much of that will depend on the earnings performance from the companies themselves. This is why we are happy to be Overweight both the most expensive sector in the market (Technology) as well as the cheapest (Autos), based on 2013E P/Es.

Figure 25. Largest 10 Cheapest Stocks

Stock	RIC	Mkt Cap	Current 12m Fwd P/E
HSBC Holdings	HSBA.L	149148	10.7
BP	BP.L	104572	8.2
Total	TOTF.PA	101482	8.6
Royal Dutch Shell A	RDSa.L	96089	8.6
Daimler	DAIGn.DE	58747	11.0
BNP Paribas	BNPP.PA	56621	10.3
Allianz	ALVG.DE	55978	9.2
Telefonica	TEF.MC	51638	11.8
ENI	ENI.MI	48460	10.5
AstraZeneca	AZN.L	48266	10.6

Source: Datastream & Citi Research

Figure 25 shows the 10 largest constituents of the cheap quintile; all mega-caps. Valuation may be cheap for most of these stocks, but our analysts see different pressures/risks and opportunities in the coming 1-2 years. For example, our report on mega-caps last week highlighted the oil majors and Telefonica as potential value traps for investors. For example, our Telecoms team has downgraded Telefonica to Sell in a recent report.

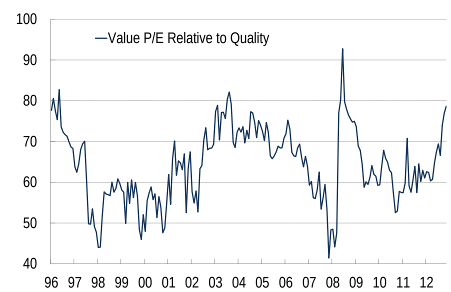
On the other hand, we highlighted the likes of Daimler, Allianz and BNP as offering investors what we think is an attractive combination of exposure to recovery and restructuring. Both Allianz and BNP remain on the European Focus List.

So, rather than blindly buying the whole cheap group here, we think that investors, in a world with low macro volatility, should be doing more bottom-up homework. But, if the macro backdrop is improving, which we think it is, then it should also pay investors to run a more pro-cyclical portfolio over the coming 12-18 months. That is where earnings leadership is more likely to come from. That also means that defensive industries may face some relative headwinds. We try to reflect this in our European sector strategy and in further changes we make to that today.

Quant style

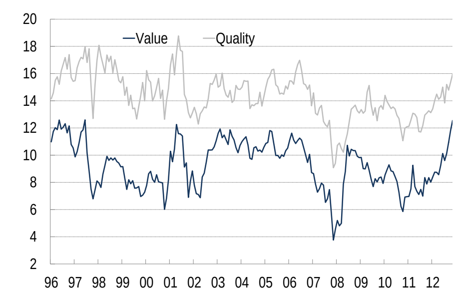
Investors cut equity markets in different ways in order to get more complete information — eg by region/country, by sector, by stock. We think style analysis adds an important further layer of analysis for all equity investors. This is why we spend a lot of time discussing style performance and valuation with our excellent Quant team, led by Chris Montagu in London. The following charts use their style indices to compare where three quintiles trade in terms of P/E and price/book — cheap value, high quality, high risk.

Figure 26. Value vs Quality P/E Relative



Source: Citi Research

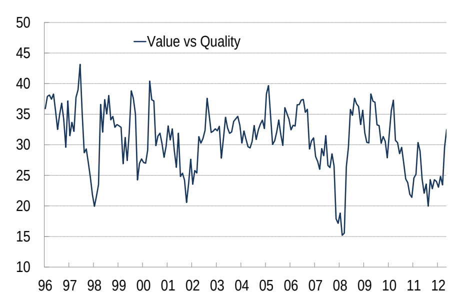
Figure 27. Value vs Quality P/E



Source: Citi Research

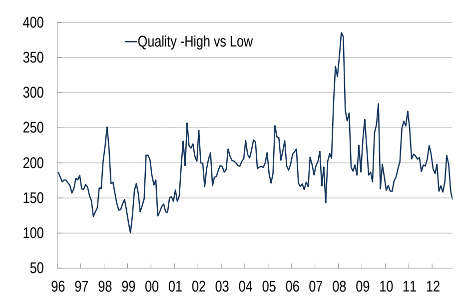
Figure 26 shows the sharp re-rating of cheap value relative to high quality in the last few months. It pales in comparison to the same move in 2009, but is one of the biggest re-ratings of value vs. quality that has happened in the last c20 years. Value now looks expensive on this basis.

Figure 28. Value vs. Quality P/Book



Source: Citi Research

Figure 29. High Quality vs. Low Qual. P/B Rel



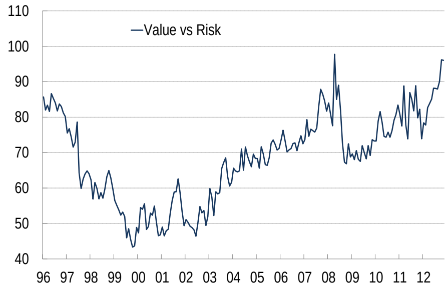
Source: Citi Research

Value has never been so expensive against Quality

Figure 28 shows the same pair on a price/book basis. The move has been more extreme. The re-rating of value vs quality in the last 12-18 months has actually exceeded the 2009 re-rating. Value has never been so expensive vs quality on this basis in the last c20 years. Investors putting fresh money into equities today with a pure value bias probably need to have high conviction over a sizeable improvement in economic activity in Europe and globally over the coming 1-2 years. The other side of value looking expensive is quality looking cheap. Figure 29 makes this point

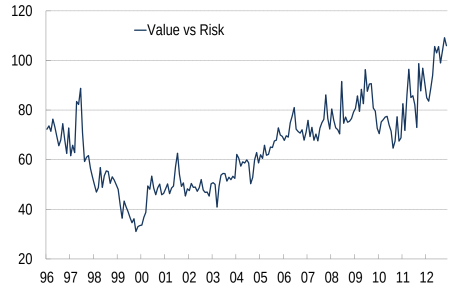
another way by showing that high quality is trading around decade cheaps vs low quality on a price/book basis, using the Quant team's style data.

Figure 30. Value vs Risk P/E



Source: Citi Research

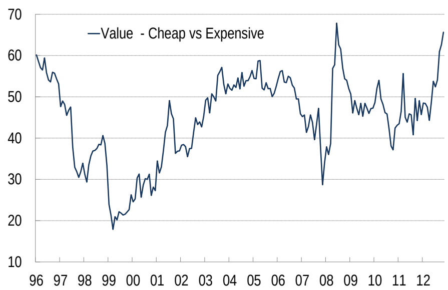
Figure 31. Value vs Risk P/Book



Source: Citi Research

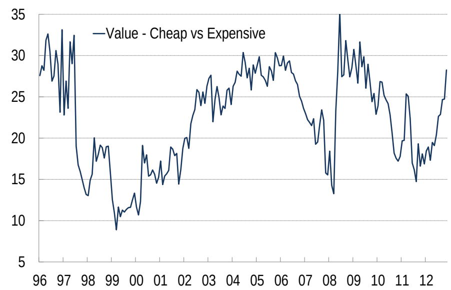
Back to value, Figure 30 and Figure 31 show that value also now looks expensive relative to risk, at or beyond c20-year record levels on both a P/E and price/book basis. So value has re-rated vs both quality and also against risk.

Figure 32. Value vs Value P/E



Source: Citi Research

Figure 33. Value vs Value P/Book

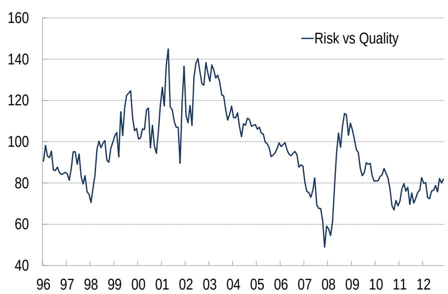


Source: Citi Research

Risk still cheap against Quality

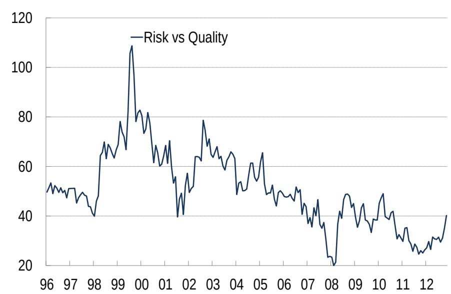
Figure 32 and Figure 33 complete a thorough look at the valuation of value. They show the cheapest value quintile relative to the most expensive value quintile on both a P/E and price/book basis. Reassuringly, we get similar results to our quintile analysis on cheap and expensive from earlier in the report. Figure 32 here shows that cheap value has never been more expensive on a P/E basis and is close to, although not at, record highs on a price/book basis.

Figure 34. Risk vs Quality P/E



Source: Citi Research

Figure 35. Risk vs Quality P/Book



Source: Citi Research

Figure 34 and Figure 35 contrast the two non-value quintiles — high risk and high quality. Risk is a combination of debt/equity, earnings stability and beta. Risk hit relative valuation lows vs quality in late-2008/early-2009, re-rated aggressively

before de-rating back to late-2011/early-2012 lows. Over the past year and a bit, risk has enjoyed a gradual re-rating vs quality, due largely to improved performance from European financials. But, these charts, and the earlier value vs risk ones, suggest that it is risk that looks cheap vs quality (and value), rather than value. This a key reason behind our REV strategy, which focuses on stocks with exposure to Risk and Earnings momentum, as well as to Value. We think this is a better way of positioning for improving economic activity in the next 1-2 years. We look in the next section what stock implications this has.

What to do? = barbell = risk & quality

Our analysis suggests that value has re-rated aggressively. Now, cheap is not cheap on most measures. In fact, value is at or close to c20-year high valuation multiples on some measures. By contrast, quality has de-rated and now appears cheap on some measures. Risk looks cheaper still.

Bottom-up, not top-down, market

But, ultimately, we think that it will be earnings leadership which determines performance leadership in the coming 12-18 months and that performance leadership will be found in risk, quality and value style buckets where there is also earnings leadership. To us, this suggests a bottom-up, not top-down, market.

So, as the day dawns, our answer as to "what to do next" is: 1) equities remain attractive with c20+% total returns to end-2014, 2) equity investors need more 're-leveraging optionality' (or beta as a short-cut) than in the era of de-leveraging & 'quality only' leadership, 3) re-leveraging optionality should help to skew to earnings leadership = companies with exposure to economic, operational and financial leverage, 4) be wary of chasing risk only, yield only or value only strategies; look for more substance, 5) overown: a) surplus FCF & strong balance sheet combos, b) REV stocks and sectors, c) restructuring/de-equitisation, d) Citi's European Focus List which represents a combination of our strategy views and our analysts' high conviction Buys (eg AXA, BNP, ING, Novartis, Rio Tinto, Siemens).

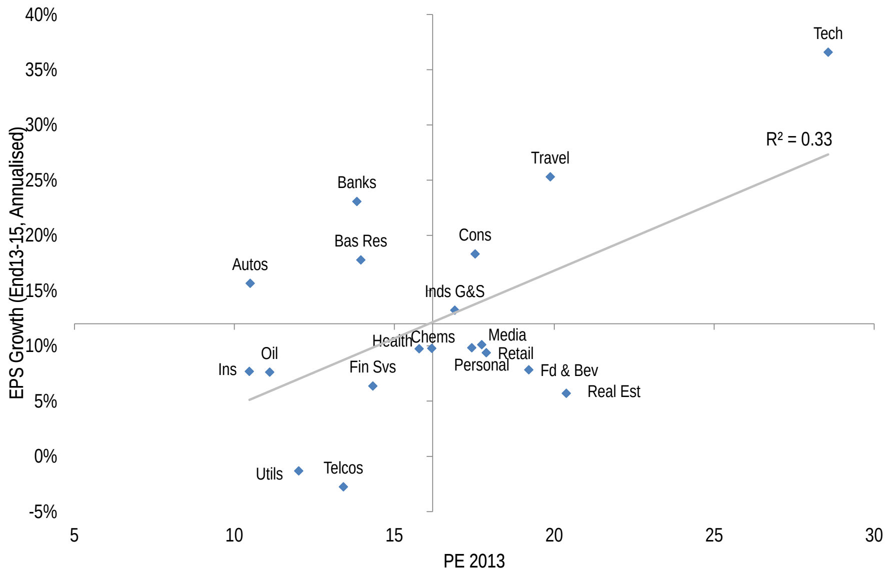
Looking for earnings leadership

Before digging into our ‘overown’ strategies, we suggest where investors may find earnings leadership in the next 1-2 years in Europe.

We believe that improving macro conditions will progressively end the current earnings downgrade cycle. We are not suggesting that there is a new upgrade cycle to come, but that it is more likely that analysts’ earnings estimates are hit in the next 1-2 years compared to the previous 1-2 years.

With that assumption, Figure 36 becomes quite important. It compares the 2013E P/E of European sectors to their 2014-15E compound earnings growth rates, according to Citi analysts. Making a heroic assumption that all analysts’ earnings estimates are hit would suggest that those sectors above the best-fit line are attractively value for their prospective earnings and those below the line are not.

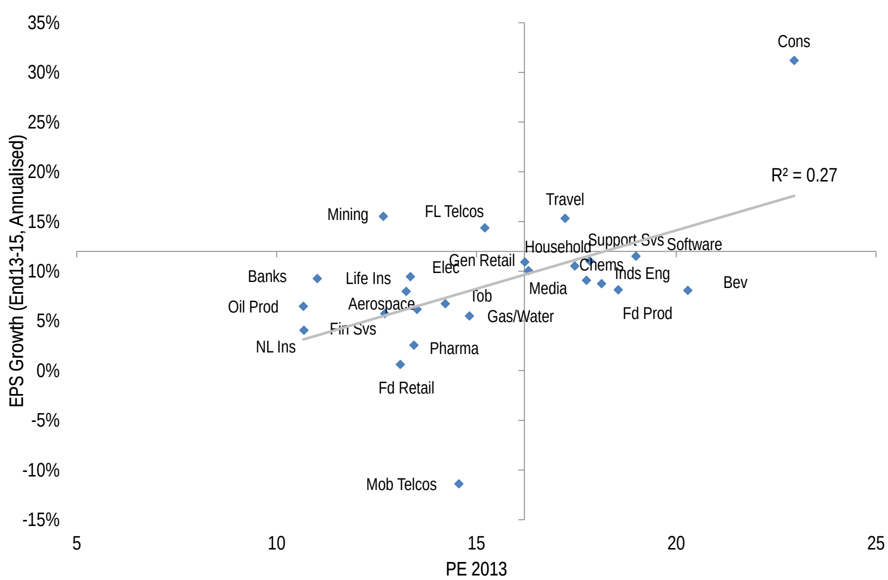
Figure 36. European Sector — EPS Growth vs P/E 2013



Source: Datastream & Citi Research

Broadly, and post the sector changes at the end of this note, this is how we have been and continue to be positioned. In our latest sector changes we further reduce exposure to defensive sectors. We are not making an absolute call here. We are merely suggesting that most of these sectors are unlikely to offer enough earnings growth to be in the new leadership group of the next couple of years.

Figure 37. UK Sector — EPS Growth vs P/E 2013



Source: Datastream & Citi Research

Figure 37 repeats this analysis for UK sectors. Here, we are already Underweight only defensive sectors, such as Electricity, Food Retail, Gas/Water, Oil & Gas, Pharma. We remain Overweight Beverages in the UK, where our analysts like Diageo, but otherwise also have a pro-cyclical and pro-financial Overweight skew.

Surplus FCF and strong balance sheets

Our first 'overown' group is stocks with surplus FCF and strong balance sheets. This generally remains a quality strategy. Warren Buffett finds both of these attributes very attractive. So do we. We like the optionality from both factors. Surplus cash and strong balance sheets are nice problems to have. Some of these companies can deliver bigger dividends or buybacks (eg Next). Other companies could also find these qualities attractive should M&A activity pick-up. All these attributes can also be found in our long-running theme of World Champions.

Figure 38. Companies with Average 2013E-2015E FCFY >200bps above DY & Net Debt/EBITDA <1x (Mkt Cap >€5bn)

Stock	RIC	Stock	RIC	Stock	RIC
ABB	ABBN.VX	Essilor Intl.	ESSI.PA	Richemont N	CFR.VX
Aberdeen Asset Man.	ADN.L	GKN	GKN.L	Rio Tinto	RIO.L
Actelion	ATLN.VX	Henkel Pref.	HNKG_p.DE	Roche	ROG.VX
Adecco R	ADEN.VX	IMI	IMI.L	Ryanair Holdings	RYA.I
Ahold Kon.	AHLN.AS	ITV	ITV.L	Sanofi	SASY.PA
Alfa Laval	ALFA.ST	Kering	PRTP.PA	SAP	SAPG.DE
ASML Hldg	ASML.AS	Kingfisher	KGF.L	Schneider Electric	SCHN.PA
Assa Abloy B	ASSAb.ST	Kuehne+Nagel Intl.	KNIN.VX	Shire	SHP.L
AstraZeneca	AZN.L	Legrand	LEGD.PA	Siemens	SIEGn.DE
Atlas Copco A	ATCOa.ST	LVMH	LVMH.PA	Smith & Nephew	SN.L
Bayer	BAYGn.DE	Merck KGAA	MRCG.DE	Smiths Group	SMIN.L
Beiersdorf	BEIG.DE	Michelin	MICP.PA	Sodexo	EXHO.PA
BHP Billiton	BLT.L	Next	NXT.L	Swatch B	UHR.VX
BSKyB	BSY.L	Nokia	NOK1V.HE	Unilever (UK)	ULVR.L
Burberry Group	BRBY.L	Novartis R	NOVN.VX	Unilever Certs.	UNc.AS
Coloplast 'B'	COLOb.CO	Novo Nordisk B	NOVOb.CO	Valeo	VLOF.PA
Continental	CONG.DE	Philips Electronics	PHG.AS	WPP	WPP.L
Dassault Systemes	DAST.PA	Randgold Resources	RRS.L	Yara International	YAR.OL
Deutsche Boerse	DB1Gn.DE	Reckitt Benckiser Group	RB.L		

Source: Citi Research

Figure 38 shows those European companies with an average 2013-15E FCF yield at least 200 basis points above the respective DY for the same period and with net debt/EBITDA below 1x.

REV it up

Our second 'overown' strategy is REV. We introduced our REV strategy in September to raise exposure to risk supported by fundamentals; in this case positive earnings momentum. Then, we highlighted Banks, Insurance and Autos as the three clear REV sectors in Europe. Still are.

Figure 39 shows those European REV stocks with a beta above 1.1, positive earnings momentum relative to the market over the last 6 months (>3%) and a 12m forward P/E of 14.5x, ie the median P/E in the market. Our three core REV sectors are well represented, as are various other cyclicals.

Figure 40 shows the other side of the REV strategy — low beta, negative earnings momentum and expensive P/Es. The stocks are much more defensive.

Figure 39. Screen of Stocks With High Beta, Earnings Mo and Cheap (Mkt Cap > €5bn)

		>€5bn	>1.1	>3	<14.5
Stock	RIC	Mkt Cap Em	Beta	-6m Rel Earn Mo	12m Fwd P/E
Daimler	DAIGn.DE	58747	1.2	11.2	11.0
Allianz	ALVG.DE	55978	1.2	10.2	9.2
Lloyds Banking Group	LLOY.L	38975	1.1	44.2	12.4
Prudential	PRU.L	37940	1.6	10.9	13.8
AXA	AXAF.PA	37284	1.5	7.7	8.6
ING Groep	ING.AS	36058	1.6	3.1	8.6
Credit Suisse R	CSGN.VX	34256	1.3	3.7	10.1
Schneider Electric	SCHN.PA	34197	1.2	5.2	13.9
Societe Generale	SOGN.PA	32589	1.9	12.9	9.6
EADS	EAD.PA	28643	1.3	14.1	14.2
Nordea Bank	NDA.ST	27572	1.3	4.4	10.8
BMW	BMWG.DE	26428	1.1	4.4	10.4
Intesa Sanpaolo	ISP.MI	25425	1.5	3.1	13.5
Assicurazioni Generali	GASI.MI	22847	1.2	6.1	11.8
Svenska Handbkn	SHBa.ST	16442	1.3	3.4	12.6
Legal & General	LGEN.L	14718	1.4	11.5	12.7
SEB A	SEBa.ST	14161	1.4	8.0	12.1
Renault	RENA.PA	13253	1.7	4.2	7.8
Continental	CONG.DE	13124	1.4	12.3	11.6
Kering	PRTP.PA	12630	1.2	4.2	14.5
DNB	DNB.OL	12026	1.7	4.6	10.1
Seadrill	SDRL.OL	12007	1.1	6.7	12.8
Aegon	AEGN.AS	10430	1.3	4.7	8.9
Standard Life	SL.L	10134	1.8	5.7	14.2
Credit Agricole	CAGR.PA	9630	1.7	8.8	7.7
Marks & Spencer Group	MKS.L	9066	1.2	5.0	13.3
KBC Groupe	KBC.BR	8338	1.5	3.7	9.8
HeidelbergCement	HEIG.DE	8158	1.4	10.4	13.2
Cap Gemini	CAPP.PA	7622	1.1	9.2	14.4
Christian Dior	DIOR.PA	7538	1.5	4.6	12.4
GKN	GKN.L	7037	1.4	12.3	12.0
Aberdeen Asset Man.	ADN.L	6265	2.0	8.1	13.8
Resolution	RSL.L	5792	1.4	6.4	13.2
Skanska B	SKAb.ST	5757	1.4	5.2	13.7
Weir Group	WEIR.L	5751	1.2	5.1	14.0
Valeo	VLOF.PA	5228	1.4	14.1	12.3

Source: Citi Research

Figure 40. Screen of Stocks With Low Beta, Earnings Mo and Expensive (Mkt Cap > €5bn)

		>€5bn	<1	<3	>14.5
Stock	RIC	Mkt Cap Em	Beta	-6m Rel Earn Mo	12m Fwd P/E
Nestle R	NESN.VX	171833	0.6	-1.2	18.0
British American Tobacco	BATS.L	77266	0.8	0.4	14.5
Deutsche Telekom	DTEGn.DE	35833	0.7	-0.4	16.3
Danone	DANO.PA	32586	0.8	-3.3	17.9
Air Liquide	AIRP.PA	31671	0.7	1.5	17.6
Syngenta	SYNN.VX	27748	0.5	-6.8	16.4
Pernod-Ricard	PERP.PA	18263	0.7	-2.9	16.3
Tullow Oil	TLW.L	9866	0.6	-21.8	25.1
SGS N	SGSN.VX	9401	0.6	-1.4	21.5
Geberit R	GEBN.VX	7723	0.7	1.7	21.3
Sodexo	EXHO.PA	7038	0.7	-0.4	19.1
Brenntag	BNRGn.DE	6373	0.6	-3.4	16.8
Intertek Group	ITRK.L	6178	0.8	0.4	20.8
Dassault Systemes	DAST.PA	5677	0.3	-0.5	22.9
GBL	GBLB.BR	5292	0.8	-5.7	14.5
Kuehne+Nagel Intl.	KNIN.VX	5216	0.6	1.7	20.7
Randgold Resources	RRS.L	5109	0.4	-38.7	19.4

Source: Citi Research

Sector strategy — more cyclical/less defensive

We have been, and remain, (very) bullish on equities and have progressively raised exposure to risk (eg financials) and recovery (eg "How to Play Recovery in Europe") over the past 12-15 months. We have also lowered exposure to quality/defensive growth. We continue these moves in some sector strategy changes today.

Adding Beta to our model

Figure 41 shows our European Sector Allocation Model (SAM). We re-introduce beta into the model with a 10% weight. We continue to skew heavily towards earnings momentum and surplus FCF, as we do towards US and European exposure to capture improving macro in advanced economies. We include 2 risk factors — slowing EM growth and US tapering/rising bond yields. EM exposure is a reverse factor, ie high EM exposure scores badly. For bond yields, we look at correlation to rising bond yields.

Figure 41. Sector Attribution Model

	EM Exp	US Exp	EU Exp	Earnings Mo	P/B	Abs P/E Rel to 5yr History	B/S	DY*G	FCF-DY	US Bond Yields	Beta	Overall Rank
Factor Weight	5%	10%	10%	15%	10%	5%	10%	5%	15%	5%	10%	100%
Insurance	2	12	4	4	1	16	-	9	-	6	4	6.5
Automobiles & Parts	12	6	13	2	9	1	6	2	14	2	2	6.9
Banks	10	15	8	10	6	5	-	1	-	3	1	7.6
Personal & H/hold	16	9	14	4	16	2	3	5	4	14	9	8.2
Travel & Leisure	5	5	6	4	17	4	10	13	8	11	10	8.3
Technology	18	7	16	1	8	13	1	18	6	5	13	8.3
Real Estate	1	19	1	7	7	8	-	14	-	12	7	8.3
Construction & Materials	7	11	9	11	5	12	13	6	9	4	6	8.9
Financial Services	14	2	19	9	10	17	-	4	-	7	5	9.2
Industrial G&S	13	13	10	8	18	6	4	7	7	8	8	9.3
Retail	8	16	3	3	11	11	5	12	13	16	11	9.4
Health Care	6	1	18	11	13	15	6	8	1	18	19	9.9
Basic Resources	19	14	17	19	2	14	8	17	3	1	3	10.3
Oil & Gas	9	4	11	16	3	3	2	15	16	9	17	10.3
Media	3	3	7	17	12	19	12	16	5	13	15	10.8
Utilities	4	17	2	14	4	10	14	19	15	17	14	12.0
Chemicals	15	10	12	14	19	7	9	11	12	10	16	12.7
Food & Beverage	17	8	15	13	15	9	11	10	10	19	18	12.9
Telecommunications	11	18	5	18	14	18	14	3	11	15	12	13.0

Source: Citi Research

Figure 42 shows our current sector strategy including changes in this report. It should, and does, overlap well with our sector model. We are Overweight the top 6 sectors in SAM, with the three REV sectors scoring best in the model. We are Underweight 5 of the bottom 6 sectors in SAM; Media is the odd-one out, but which we lower to Neutral from Overweight following strong performance and to fund Basic Resources to Overweight.

Figure 42. European Sector Strategy (Arrows Denote Latest Changes)

Overweight	Neutral	Underweight
Autos	Health Care↓	Chemicals
Basic Resources ↑	Media ↓	Construction
Banks	Industrial G&S ↑	Food & Beverage ↓
Financials Services	Real Estate ↑	Oil & Gas
Insurance	Retail ↑	Telcos
Personal & Household Gds		Utilities
Technology		
Travel & Leisure		

Source: Citi Research

Overall, we lower Health Care to Neutral and Food & Beverage to Underweight. We keep our preference for cheaper Health Care over Food & Beverage. This continues our shift away from defensive growth which started 12-months ago.

Both sectors will struggle to be part of the 2014-15 earnings leadership group, in our view, although we continue to like various stocks within these sectors (eg ABInbev, Novartis, Roche).

We raise Real Estate, Retail and Industrials to Neutral. Both are scoring well on our sector allocation model; Industrials has good earnings momentum and analysts expect 10%+ compound earnings growth over the next 2-years from the sector. Exposure to an improving global economy should not hurt.

Last, we raise Basic Resources to Overweight. We moved the sector up from Underweight in June. Our analysts expect the sector to enjoy the highest 2014-15E compound earnings growth, alongside Technology, Banks and Travel & Leisure. We are already Overweight those three sectors.

Special mention — Overweight Financials

Financials Sector remains the biggest Overweight

Despite the recent outperformance, we remain positive on European Insurance and Banks. Financials sectors also remain the biggest Overweight within our regional and global strategists' portfolios. They both trade on a P/E discount to the market and have positive relative earnings momentum.

Within Insurance, our analysts continue to see attractive valuation upside and believe the macro outlook will be supportive for the sector. Within European Banks, our Banks' team expects AQR (Asset Quality Review) to 'speed-up' the healing process. Banks with relatively higher levels of problem assets and lower coverage are most at risk of potential capital rebuild. These include mid-cap Spanish, Italian, Greek, and to a lesser extent, Austrian banks. They also see the sector passing through an inflection point on capital (from a 2011 capital deficit of €300bn to break-even in 2013E). French, Nordic, and Swiss banks are best placed for capital return (BNP Paribas, Danske Bank, Nordea, Credit Suisse and UBS).

They also like the UK Banks, preferring international banks (HSBC, Standard Ch. and Barclays), where performance has been softer due to their EM exposure, over more expensive (Lloyds) or more structurally challenged (RBS) domestic names.

While Citi analysts are optimistic on Nordic, French, Swiss and UK banks, they are cautious on Italian and Spanish Banks, where the market has priced in too much optimism in their view. Our Italian Banks analyst thinks market has run too far, as Italian implied cost of equity is now similar to Nordic banks. As such, valuations seem too optimistic. Our Spanish Banks analyst is also wary of the recent rally, which has been mostly based on re-rating.

We don't want to chase the risk rally in European Financials, but would be happy to own higher quality Banks and Insurers into the next 12-18 months.

Strategy outlook

Structural performance trends of past 4 years reversed in past 4 months. Risk & value = ripped. Quality = lagged. Value re-rated & now looks expensive vs quality & risk. Risk still looks cheap. What to do? Most attractive value trade = equities vs other assets. In equities, investors should position now for earnings leadership in the coming 12-18m. Likely to be long cyclicals/financials & short defensives. Stick with our REV strategy = Banks, Insurance and Autos.

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Valuation Tables

Figure 43. Pan-European Sector Weightings & Returns

As at Close 29 Oct 13	Mkt Cap	% of	Return Relative to DJ Stoxx				Absolute Return			
Sector (No of Stocks)	(Euros m)	Stoxx	1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (32)	531,566	8.0	0	-1	-15	-9	3	6	4	7
Chemicals (25)	326,755	4.9	-1	-1	-2	-5	2	7	20	12
Basic Resources (22)	225,795	3.4	-1	4	-22	-23	2	12	-4	-10
Construction & Materials (21)	149,207	2.3	0	2	9	3	3	10	33	21
Industrial G&S (105)	719,912	10.9	-2	0	4	2	1	8	27	20
Automobiles & Parts (14)	189,319	2.9	-2	1	22	11	1	8	49	31
Food & Beverage (29)	543,063	8.2	-1	-3	-8	-6	2	4	13	10
Personal & H'hold Goods (30)	383,031	5.8	-1	-4	0	-1	1	4	22	16
Health Care (34)	734,737	11.1	-1	-5	-2	1	2	3	20	19
Retail (28)	226,496	3.4	0	1	4	5	2	9	27	24
Media (26)	165,071	2.5	2	3	15	12	5	11	41	32
Travel & Leisure (21)	92,421	1.4	-1	-6	6	1	2	1	30	19
Telecommunications (23)	352,118	5.3	3	11	7	14	6	19	32	34
Utilities (26)	269,522	4.1	0	2	-10	-4	3	10	10	13
Banks (47)	875,422	13.3	2	2	6	3	5	10	29	21
Insurance (35)	412,223	6.2	4	1	12	8	7	9	38	27
Real Estate (26)	89,773	1.4	2	-2	-7	-6	5	6	14	11
Financial Services (32)	105,116	1.6	1	1	15	11	4	9	41	31
Technology (24)	213,339	3.2	-4	1	10	3	-2	9	34	21
Stoxx - Pan Europe (600)	6,604,888	100.0	—	—	—	—	3	8	22	18
Pan Euro - Large Cap	5,346,540	80.9	0	0	-1	-1	3	7	21	17
Pan Euro - Mid Cap	862,196	13.1	0	1	4	3	3	9	27	21
Pan Euro - Small Cap	396,152	6.0	1	2	4	3	4	10	27	22
Stoxx ex UK - Europe ex UK (415)	4,445,498	67.3	—	—	—	—	3	9	26	20
EuroStoxx - Eurozone (292)	3,029,206	45.9	—	—	—	—	4	11	28	21

Source: Citi Research & DataStream

Figure 44. Pan-European Sector Relative Ratings

As at Close 29 Oct 13	P/E Relative to DJ Stoxx				Yield Relative to DJ Stoxx			
Sector	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Oil & Gas	63	75	75	81	134	132	126	120
Chemicals	104	109	116	113	81	79	80	79
Basic Resources	88	94	91	85	108	97	94	90
Construction & Materials	109	119	111	106	93	94	94	92
Industrial Goods & Services	110	114	112	111	81	83	84	83
Automobiles & Parts	61	71	70	66	87	88	91	92
Food & Beverage	127	130	137	139	82	84	85	83
Personal & H'hold Goods	121	120	123	123	77	81	81	82
Health Care	99	107	109	110	95	94	95	92
Retail	118	121	124	126	88	86	85	83
Media	105	118	120	122	113	100	99	94
Travel & Leisure	141	134	116	107	74	67	67	68
Telecommunications	89	91	110	120	134	142	136	133
Utilities	75	81	98	104	183	161	148	139
Banks	130	94	83	77	97	106	114	132
Insurance	80	71	74	76	112	116	115	109
Real Estate	142	138	147	154	119	118	116	109
Financial Services	126	97	107	107	105	99	101	99
Technology	235	193	133	129	58	46	47	46
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	94	95	97	98	103	104	104	104
Pan Euro - Mid Cap	127	123	115	111	89	83	85	85
Pan Euro - Small Cap	189	133	119	112	87	83	85	84
Stoxx ex UK - Europe ex UK	108	104	101	100	97	98	98	98
Stoxx Eurozone - Eurozone	106	102	98	97	99	99	97	98

Source: Citi Research & DataStream

Figure 45. Pan-European Sector Growth

As at Close 29 Oct 13	Earnings Growth %			Net Dividend Growth %		
Sector	2013E	2014E	2015E	2013E	2014E	2015E
Oil & Gas	-12.2	12.6	2.9	1.4	2.6	5.3
Chemicals	-0.9	5.9	13.8	1.5	7.2	9.3
Basic Resources	-3.4	16.1	19.5	-7.1	2.9	6.5
Construction & Materials	-4.7	19.8	16.8	4.5	7.4	8.4
Industrial Goods & Services	-0.3	14.7	11.7	5.6	8.0	9.7
Automobiles & Parts	-10.8	14.0	17.4	3.5	10.7	12.3
Food & Beverage	1.9	6.5	9.2	6.2	8.4	7.8
Personal & H'hold Goods	4.6	9.5	10.7	8.8	6.8	11.7
Health Care	-3.9	9.7	9.8	2.0	7.5	8.2
Retail	1.0	9.7	9.0	0.4	6.5	8.1
Media	-7.1	9.8	9.9	-9.6	5.8	5.8
Travel & Leisure	8.6	30.5	20.3	-6.8	7.1	12.7
Telecommunications	1.8	-7.3	2.0	8.9	2.7	8.6
Utilities	-4.6	-7.3	5.0	-9.8	-1.3	3.6
Banks	44.0	27.0	19.2	12.3	15.6	27.6
Insurance	16.6	7.9	7.5	5.8	6.2	5.5
Real Estate	6.7	5.1	6.3	2.3	5.3	4.0
Financial Services	34.9	1.5	11.5	-3.5	8.6	8.8
Technology	26.5	63.5	14.1	-18.6	8.5	10.0
Stoxx - Pan Europe	3.9	12.1	11.2	2.8	7.0	10.7
Pan Euro - Large Cap	1.9	10.5	10.3	4.1	6.5	10.9
Pan Euro - Mid Cap	7.4	19.9	14.8	-4.4	9.5	10.3
Pan Euro - Small Cap	48.4	25.0	18.1	-2.3	9.3	9.4
Stoxx ex UK - Europe ex UK	7.4	15.5	12.8	3.0	7.1	11.6
Stoxx Eurozone - Eurozone	7.5	16.4	13.0	2.3	5.4	11.8

Source: Citi Research & DataStream

Figure 46. Pan-European Sector Ratings

As at Close 29 Oct 13	Price/Earnings				Net Dividend Yield			
Sector	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Oil & Gas	9.8	11.1	9.9	9.6	4.38	4.44	4.55	4.79
Chemicals	16.0	16.2	15.3	13.4	2.64	2.68	2.87	3.14
Basic Resources	13.5	14.0	12.0	10.1	3.53	3.28	3.37	3.59
Construction & Materials	16.7	17.5	14.6	12.5	3.03	3.17	3.40	3.69
Industrial Goods & Services	16.8	16.9	14.7	13.2	2.65	2.79	3.02	3.31
Automobiles & Parts	9.4	10.5	9.2	7.8	2.86	2.96	3.27	3.67
Food & Beverage	19.6	19.2	18.0	16.5	2.67	2.84	3.08	3.32
Personal & H'hold Goods	18.5	17.7	16.2	14.6	2.52	2.74	2.92	3.26
Health Care	15.2	15.8	14.4	13.1	3.11	3.17	3.40	3.68
Retail	18.1	17.9	16.3	14.9	2.87	2.88	3.07	3.32
Media	16.2	17.4	15.9	14.4	3.71	3.35	3.55	3.76
Travel & Leisure	21.6	19.9	15.2	12.7	2.42	2.25	2.41	2.72
Telecommunications	13.7	13.4	14.5	14.2	4.38	4.77	4.90	5.32
Utilities	11.5	12.0	13.0	12.3	6.00	5.41	5.34	5.53
Banks	19.9	13.8	10.9	9.1	3.17	3.56	4.11	5.25
Insurance	12.2	10.5	9.7	9.0	3.68	3.90	4.14	4.37
Real Estate	21.8	20.4	19.4	18.2	3.88	3.97	4.18	4.35
Financial Services	19.3	14.3	14.1	12.7	3.46	3.33	3.62	3.94
Technology	36.1	28.6	17.5	15.3	1.90	1.55	1.68	1.84
Stoxx - Pan Europe	15.4	14.8	13.2	11.9	3.28	3.37	3.60	3.99
Pan Euro - Large Cap	14.4	14.1	12.8	11.6	3.36	3.50	3.73	4.13
Pan Euro - Mid Cap	19.5	18.1	15.1	13.2	2.92	2.79	3.06	3.37
Pan Euro - Small Cap	29.1	19.6	15.7	13.3	2.86	2.80	3.06	3.34
Stoxx ex UK - Europe ex UK	16.6	15.4	13.4	11.8	3.19	3.28	3.52	3.92
Stoxx Eurozone - Eurozone	16.2	15.1	13.0	11.5	3.25	3.32	3.51	3.92

Source: Citi Research & DataStream

Figure 47. Pan-European Country Weightings & Returns

	Mkt Cap (Euros m)	% of Stoxx	Relative Return to Stoxx 1m	3m	12m	YTD	Absolute Return 1m	3m	12m	YTD
Austria	25,043	0.4	0	5	1	-5	4	12	23	12
Belgium	102,563	1.6	-1	2	1	1	3	10	23	19
Denmark	128,427	2.0	1	0	-3	-1	5	8	18	16
Finland	96,945	1.5	2	14	21	16	6	23	47	37
France	1,000,453	15.2	0	0	5	2	3	7	27	21
Germany	871,937	13.3	1	1	3	1	5	9	25	19
Greece	8,173	0.1	11	31	41	32	15	41	71	55
Ireland	50,349	0.8	2	5	9	11	5	13	33	30
Italy	246,588	3.7	7	9	1	0	10	17	23	18
Netherlands	265,135	4.0	0	-1	5	4	4	6	27	22
Norway	89,022	1.4	4	0	-10	-7	7	7	10	9
Portugal	19,725	0.3	-2	-3	-6	-7	2	4	15	10
Spain	323,944	4.9	4	9	7	5	7	17	30	24
Sweden	311,975	4.7	-3	-5	2	0	1	2	23	17
Switzerland	880,704	13.4	-2	-2	3	3	2	5	25	21
UK	2,159,390	32.8	-1	-2	-7	-5	3	6	13	12
Stoxx - Pan Europe	6,580,373	100								

Source: Citi Research & DataStream

Figure 48. Pan-European Country Relative Ratings

As at Close 29 Oct 13 Country	Price/Earnings 2012	2013E	2014E	2015E	Net Dividend Yield 2012	2013E	2014E	2015E
Austria	99	117	85	85	81	91	103	103
Belgium	119	117	122	121	100	93	104	102
Denmark	164	128	119	113	51	59	68	74
Finland	170	129	109	118	130	101	97	91
France	112	101	96	95	98	102	104	103
Germany	81	89	92	91	94	85	86	87
Greece	51	130	138	122	90	20	86	131
Ireland	141	165	131	120	46	48	48	46
Italy	116	112	99	95	97	97	98	101
Netherlands	110	109	101	100	75	71	73	70
Norway	80	86	83	85	137	134	135	137
Portugal	2040	265	112	91	129	101	104	107
Spain	137	108	109	105	136	160	133	142
Sweden	104	111	109	109	106	113	114	112
Switzerland	117	111	110	109	90	90	93	93
UK	87	92	98	100	106	105	105	103
EuroStoxx - Eurozone	106	102	98	97	99	99	97	98
Stoxx ex UK - Europe ex UK	108	104	101	100	97	98	98	98
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Research & DataStream

Figure 49. Pan-European Country Growth

As at Close 29 Oct 13	Earnings Growth %			Dividend Growth %		
Country	2013E	2014E	2015E	2013E	2014E	2015E
Austria	-12.4	54.7	11.0	15.7	20.4	11.1
Belgium	6.1	7.1	11.8	-3.6	19.2	8.5
Denmark	32.8	21.1	16.8	19.5	23.4	19.9
Finland	36.9	32.1	3.1	-20.1	2.9	3.3
France	15.0	18.4	12.3	7.6	8.9	9.8
Germany	-5.9	7.9	12.6	-6.7	7.5	12.9
Greece	-59.3	5.6	25.9	-77.5	366.4	68.5
Ireland	-11.2	41.6	20.9	7.9	6.8	5.7
Italy	7.4	27.1	15.8	2.7	8.2	14.5
Netherlands	4.1	21.8	12.0	-3.7	11.2	5.8
Norway	-2.4	15.1	9.0	0.6	8.3	12.2
Portugal	699.1	166.5	35.7	-20.2	10.8	14.2
Spain	32.6	10.8	15.1	21.0	-11.5	18.4
Sweden	-2.3	13.8	10.9	8.9	8.3	9.1
Switzerland	9.9	12.5	12.8	2.5	11.2	10.9
UK	-1.9	6.0	8.0	2.4	6.8	9.1
EuroStoxx - Eurozone	7.5	16.4	13.0	2.3	5.4	11.8
Stoxx ex UK - Europe ex UK	7.4	15.5	12.8	3.0	7.1	11.6
Stoxx - Pan Europe	3.9	12.1	11.2	2.8	7.0	10.7

Source: Citi Research & DataStream

Figure 50. Pan-European Country Ratings

As at Close 29 Oct 13	Price/Earnings				Net Dividend Yield			
Country	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Austria	15.2	17.3	11.2	10.1	2.66	3.08	3.71	4.12
Belgium	18.3	17.2	16.1	14.4	3.26	3.14	3.75	4.07
Denmark	25.2	19.0	15.7	13.4	1.66	1.99	2.45	2.94
Finland	26.1	19.1	14.4	14.0	4.25	3.40	3.50	3.61
France	17.2	15.0	12.6	11.3	3.20	3.44	3.75	4.12
Germany	12.4	13.2	12.2	10.8	3.08	2.87	3.08	3.48
Greece	7.9	19.3	18.2	14.5	2.96	0.67	3.11	5.24
Ireland	21.7	24.4	17.3	14.3	1.49	1.61	1.72	1.82
Italy	17.8	16.5	13.0	11.2	3.17	3.25	3.52	4.03
Netherlands	16.8	16.2	13.3	11.8	2.47	2.38	2.65	2.80
Norway	12.4	12.7	11.0	10.1	4.48	4.50	4.88	5.47
Portugal	313.3	39.2	14.7	10.8	4.24	3.39	3.75	4.29
Spain	21.1	15.9	14.4	12.5	4.46	5.40	4.78	5.66
Sweden	16.0	16.4	14.4	13.0	3.48	3.79	4.11	4.48
Switzerland	18.0	16.3	14.5	12.9	2.94	3.01	3.35	3.72
UK	13.4	13.6	12.9	11.9	3.46	3.54	3.78	4.12
EuroStoxx - Eurozone	16.2	15.1	13.0	11.5	3.25	3.32	3.51	3.92
Stoxx ex UK - Europe ex UK	16.6	15.4	13.4	11.8	3.19	3.28	3.52	3.92
Stoxx - Pan Europe	15.4	14.8	13.2	11.9	3.28	3.37	3.60	3.99

Source: Citi Research & DataStream

Figure 51. UK Sector Weightings & Relative Returns

As at Close 29 Oct 2013	Mkt Cap £m	% of AllShare	% of Group	Relative return 1m	3m	12m	Qtd	Ytd
OIL & GAS (26)	303,330	14.4		2	-3	-13	2	-8
Oil & Gas Producers (18)	290,671	13.8	96	2	-3	-13	2	-8
Oil Equip, Serv and Distrib (7)	12,567	0.6	4	1	1	-12	1	-8
BASIC MATERIALS (36)	170,869	8.1		-2	5	-21	-1	-23
Chemicals (8)	14,984	0.7	9	-1	3	1	-2	-4
Forestry & Paper (1)	4,065	0.2	2	1	16	38	1	41
Industrial Metals & Mining (4)	1,012	0.0	1	-6	8	-55	-6	-57
Mining (23)	150,808	7.2	88	-2	5	-23	-1	-25
INDUSTRIALS (110)	207,092	9.8		-1	1	9	-1	8
Construction & Materials (12)	17,317	0.8	8	-1	9	11	-1	7
Aerospace (9)	48,334	2.3	23	-3	-4	14	-2	14
General Industrials (6)	14,812	0.7	7	3	8	12	2	9
Electronic & Electrical Equip (13)	9,929	0.5	5	-2	2	7	-3	-2
Industrial Engineering (12)	21,463	1.0	10	-2	7	17	-2	10
Industrial Transportation (7)	3,094	0.1	1	3	12	30	3	28
Support Services (51)	92,143	4.4	44	-1	0	4	-1	6
CONSUMER GOODS (38)	287,013	13.6		0	-1	0	0	-1
Automobiles & Parts (1)	5,919	0.3	2	-1	7	47	1	35
Beverages (5)	87,583	4.2	31	-1	0	-2	-1	-3
Food Producers (11)	45,442	2.2	16	2	-4	-1	2	-3
Household Goods & Home Const (13)	49,863	2.4	17	6	2	17	4	15
Leisure Goods (2)	552	0.0	0	4	16	96	2	59
Personal Goods (4)	8,743	0.4	3	-10	-4	9	-11	5
Tobacco (2)	88,911	4.2	31	0	-2	-9	0	-7
HEALTH CARE (14)	150,899	7.2		1	-3	1	0	5
Health Care Equip & Services (6)	8,720	0.4	6	-1	-1	1	-1	-1
Pharmaceuticals & Biotech (8)	142,178	6.8	94	1	-3	1	0	6
CONSUMER SERVICES (84)	221,944	10.6		0	1	13	-1	10
Food & Drug Retailers (7)	46,633	2.2	21	-1	0	1	-1	0
General Retailers (22)	40,343	1.9	18	-3	-1	16	-4	15
Media (23)	67,119	3.2	30	2	5	20	1	15
Travel & Leisure (32)	67,850	3.2	31	0	-3	15	-1	10
TELECOMMUNICATIONS (8)	146,650	7.0		1	10	19	1	27
Fixed-Line Telecoms (6)	33,310	1.6	23	3	7	40	4	32
Mobile Telecoms (2)	113,341	5.4	77	0	11	15	0	26
UTILITIES (7)	76,380	3.6		-2	-5	-8	-2	-5
Electricity (2)	16,503	0.8	22	-6	-9	-12	-7	-8
Gas, Water & Multi-Utilities (5)	59,877	2.8	78	-1	-3	-6	-1	-4
TECHNOLOGY (23)	32,012	1.5		-5	1	8	-4	3
Software & Computer Serv (14)	14,026	0.7	44	-4	-6	4	-4	1
Technology Hardware & Equip (9)	17,986	0.9	56	-5	8	11	-4	4
TOTAL NON-FINANCIAL (346)	1,596,189	75.9		0	0	-2	0	0
FINANCIALS (265)	506,529	24.1		0	-1	6	0	2
Banks (6)	247,060	11.7	49	-2	-5	1	-2	-5
Non-Life Insurance (11)	20,550	1.0	4	0	-2	1	0	-2
Life Insurance (11)	86,816	4.1	17	5	7	23	5	16
Real Estate Inv. Servs (22)	10,264	0.5	2	2	2	23	1	19
REITS (16)	31,856	1.5	6	4	3	2	4	1
Financial Services (26)	42,159	2.0	8	2	3	21	2	17
FTSE ALL SHARE (611)	2,102,718	100.0		0	0	0	0	0
FTSE 100 (100)	1,747,691	83.1		0	0	-2	0	-1
Mid 250 (250)	299155	14		0	1	9	0	7
Small Cap (261)	55,872	3		-1	4	11	-1	9

Source: Citi Research & DataStream

Figure 52. UK Relative Ratings

	P/E Relative				Yield Relative			
As at Close 29 Oct 2013	2012E	2013E	2014E	2015E	2012E	2013E	2014E	2015E
OIL & GAS	70	78	75	80	118	120	113	106
Oil & Gas Producers	69	78	75	79	120	122	114	107
Oil Equip, Serv and Distrib	109	96	91	89	74	75	83	84
BASIC MATERIALS	86	96	94	83	96	92	89	88
Chemicals	133	132	131	129	64	65	65	67
Forestry & Paper	141	102	95	102	63	67	87	81
Industrial Metals & Mining	-48	-189	-	85	36	17	27	50
Mining	81	92	91	80	101	96	92	90
INDUSTRIALS	123	120	117	114	77	75	73	72
Construction & Materials	128	167	132	113	105	103	99	95
Aerospace	108	98	101	101	81	81	80	78
General Industrials	110	107	102	102	82	82	85	83
Electronic & Electrical Equip	129	125	123	122	60	61	61	61
Industrial Engineering	138	129	126	126	61	61	61	60
Industrial Transportation	128	122	119	119	73	74	71	69
Support Services	129	127	124	121	75	71	67	68
CONSUMER GOODS	131	125	125	123	85	90	88	90
Automobiles & Parts	99	94	87	84	61	66	70	74
Beverages	154	148	149	147	62	65	66	66
Food Producers	141	135	136	134	85	87	85	85
Household Goods & Home Const	141	130	125	122	64	80	75	84
Personal Goods	166	148	140	138	53	57	61	63
Tobacco	107	104	106	105	125	125	123	123
HEALTH CARE	88	99	105	108	123	122	117	112
Health Care Equip & Services	119	122	122	119	61	58	57	58
Pharmaceuticals & Biotech	87	98	104	108	127	126	121	115
CONSUMER SERVICES	119	115	111	111	83	82	80	78
Food & Drug Retailers	88	95	102	109	114	110	103	96
General Retailers	127	118	114	111	71	72	72	71
Media	123	119	116	114	76	82	81	82
Travel & Leisure	142	125	112	109	77	69	68	67
TELECOMMUNICATIONS	107	107	129	138	133	125	124	126
Fixed-Line Telecoms	111	111	104	98	82	86	91	116
Mobile Telecoms	105	106	139	157	148	137	134	129
UTILITIES	103	105	106	108	151	146	142	137
Electricity	89	97	96	94	166	153	148	147
Gas, Water & Multi-Utilities	107	108	109	112	146	144	140	134
TECHNOLOGY	198	187	173	161	36	40	43	46
Software & Computer Serv	138	138	134	129	56	58	59	59
Technology Hardware & Equip	299	259	223	201	21	26	31	36
TOTAL NON-FINANCIAL	99	104	104	104	102	101	98	96
FINANCIALS	103	89	89	88	94	97	109	116
Banks	96	80	79	78	85	94	114	128
Non-Life Insurance	84	78	81	83	166	138	135	130
Life Insurance	95	96	95	96	102	102	103	102
Real Estate Inv. Servs	234	206	198	191	60	61	60	58
REITS	189	190	190	190	100	98	94	90
Financial Services	130	92	98	96	103	92	97	98
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	97	98	98	98	104	104	104	104
Mid 250	119	117	117	112	79	74	76	76
Small Cap	148	128	114	99	69	67	67	66

Source: Citi Research & DataStream

Figure 53. UK Sector Growth

As at Close 29 Oct 2013	Earnings Growth % 2013E	2014E	2015E	Net Dividend Growth % 2013E	2014E	2015E
OIL & GAS	-9.1	11.4	2.1	8.1	0.7	2.5
Oil & Gas Producers	-9.8	11.3	1.8	8.1	0.3	2.2
Oil Equip, Serv and Distrib	15.9	13.5	10.8	8.0	18.9	10.5
BASIC MATERIALS	-8.7	9.6	21.6	1.6	4.2	7.5
Chemicals	2.8	7.8	9.7	8.3	7.9	11.9
Forestry & Paper	40.0	15.0	1.1	13.4	40.4	1.1
Industrial Metals & Mining	-74.0	-	-	-49.2	71.9	101.7
Mining	-10.9	9.0	22.4	1.1	3.2	7.2
INDUSTRIALS	4.5	9.7	11.1	4.1	4.3	8.0
Construction & Materials	-22.0	35.2	27.3	4.6	2.8	4.8
Aerospace	11.9	3.9	8.4	6.3	6.3	6.5
General Industrials	4.6	11.7	8.6	6.9	10.6	7.2
Electronic & Electrical Equip	4.8	8.8	9.4	8.1	8.1	8.6
Industrial Engineering	9.2	10.3	7.8	6.6	7.0	6.8
Industrial Transportation	6.9	9.6	8.2	6.9	3.7	5.5
Support Services	3.8	9.7	11.4	1.3	1.6	10.3
CONSUMER GOODS	7.0	7.0	9.6	11.6	5.6	11.4
Automobiles & Parts	7.8	15.1	12.0	15.0	15.0	15.0
Beverages	6.2	6.3	9.8	10.9	8.6	10.1
Food Producers	6.2	6.8	9.5	9.3	4.9	8.8
Household Goods & Home Cor	10.7	10.9	11.2	33.6	1.0	21.9
Personal Goods	14.2	13.6	9.3	14.2	13.9	12.5
Tobacco	5.8	4.9	8.6	6.4	5.2	9.4
HEALTH CARE	-9.0	1.2	4.5	5.0	3.5	4.2
Health Care Equip & Services	-0.1	6.9	10.7	0.8	6.3	9.9
Pharmaceuticals & Biotech	-9.4	1.0	4.2	5.1	3.4	4.0
CONSUMER SERVICES	5.7	10.4	8.5	4.6	4.6	6.6
Food & Drug Retailers	-5.4	0.2	1.1	1.8	1.2	1.0
General Retailers	9.5	11.3	10.5	7.9	7.3	8.6
Media	5.7	9.6	10.5	15.3	5.8	9.7
Travel & Leisure	15.5	19.8	11.0	-4.6	5.2	7.5
TELECOMMUNICATIONS	1.5	-11.2	1.3	0.0	6.9	10.6
Fixed-Line Telecoms	2.1	14.2	14.5	11.5	13.6	38.7
Mobile Telecoms	1.4	-18.3	-3.9	-1.9	5.6	5.0
UTILITIES	-0.6	6.4	6.5	3.1	4.6	5.3
Electricity	-6.4	8.0	10.9	-2.2	4.3	8.1
Gas, Water & Multi-Utilities	1.3	5.9	5.1	4.7	4.7	4.5
TECHNOLOGY	7.6	16.2	15.9	15.8	17.3	16.3
Software & Computer Serv	1.6	10.4	12.6	9.2	10.6	9.2
Technology Hardware & Equip	17.7	24.6	20.1	29.3	29.0	26.9
TOTAL NON-FINANCIAL	-2.2	7.0	7.9	5.6	4.0	6.9
FINANCIALS	17.4	7.7	9.1	9.3	20.5	16.0
Banks	21.9	8.6	10.0	18.0	30.6	21.9
Non-Life Insurance	10.3	3.3	4.8	-11.5	5.1	5.1
Life Insurance	0.3	9.0	7.0	5.7	9.1	8.1
Real Estate Inv. Servs	15.7	11.5	12.3	7.8	7.2	4.7
REITS	1.1	7.1	8.1	3.9	3.6	4.5
Financial Services	43.8	1.2	10.5	-4.9	13.2	9.8
FTSE ALL SHARE	1.9	7.2	8.2	6.3	7.5	9.0
FTSE 100	1.5	7.0	7.5	7.0	7.3	9.1
Mid 250	3.8	7.2	12.3	0.3	9.8	8.9
Small Cap	17.3	20.9	25.0	2.3	7.8	7.9

Source: Citi Research & DataStream

Figure 54. UK Sector Ratings

As at Close 29 Oct 2013	Price/Earnings 2012E	2013E	2014E	2015E	Net Dividend Yield 2012E	2013E	2014E	2015E
OIL & GAS	9.8	10.8	9.7	9.5	3.86	4.18	4.21	4.31
Oil & Gas Producers	9.6	10.7	9.6	9.4	3.92	4.24	4.26	4.35
Oil Equip, Serv and Distrib	15.3	13.2	11.6	10.5	2.40	2.60	3.09	3.41
BASIC MATERIALS	12.0	13.2	12.0	9.9	3.15	3.20	3.33	3.58
Chemicals	18.6	18.1	16.8	15.3	2.09	2.26	2.44	2.73
Forestry & Paper	19.7	14.1	12.2	12.1	2.05	2.33	3.27	3.30
Industrial Metals & Mining	-6.8	-26.0	-	10.1	1.16	0.59	1.01	2.05
Mining	11.3	12.7	11.6	9.5	3.30	3.33	3.44	3.69
INDUSTRIALS	17.2	16.4	15.0	13.5	2.52	2.62	2.73	2.95
Construction & Materials	17.9	22.9	17.0	13.3	3.43	3.59	3.69	3.86
Aerospace	15.1	13.5	13.0	12.0	2.64	2.80	2.98	3.18
General Industrials	15.3	14.7	13.1	12.1	2.68	2.86	3.16	3.39
Electronic & Electrical Equip	18.0	17.2	15.8	14.5	1.95	2.11	2.28	2.48
Industrial Engineering	19.4	17.8	16.1	14.9	1.99	2.12	2.27	2.43
Industrial Transportation	17.9	16.7	15.3	14.1	2.39	2.56	2.65	2.80
Support Services	18.1	17.5	15.9	14.3	2.44	2.48	2.51	2.77
CONSUMER GOODS	18.3	17.1	16.0	14.6	2.79	3.12	3.29	3.67
Automobiles & Parts	13.9	12.9	11.2	10.0	1.98	2.28	2.62	3.01
Beverages	21.5	20.3	19.1	17.4	2.04	2.26	2.45	2.70
Food Producers	19.7	18.6	17.4	15.9	2.77	3.03	3.18	3.46
Household Goods & Home Co	19.8	17.8	16.1	14.5	2.08	2.78	2.80	3.42
Personal Goods	23.2	20.3	17.9	16.4	1.74	1.99	2.27	2.55
Tobacco	15.0	14.2	13.6	12.5	4.10	4.36	4.58	5.01
HEALTH CARE	12.4	13.6	13.4	12.8	4.03	4.23	4.38	4.56
Health Care Equip & Services	16.7	16.7	15.6	14.1	2.00	2.01	2.14	2.35
Pharmaceuticals & Biotech	12.2	13.4	13.3	12.8	4.15	4.36	4.51	4.69
CONSUMER SERVICES	16.6	15.7	14.3	13.1	2.73	2.86	2.99	3.19
Food & Drug Retailers	12.4	13.1	13.1	12.9	3.74	3.81	3.86	3.90
General Retailers	17.8	16.2	14.6	13.2	2.31	2.49	2.67	2.90
Media	17.2	16.3	14.9	13.5	2.48	2.86	3.03	3.32
Travel & Leisure	19.9	17.2	14.4	13.0	2.53	2.41	2.54	2.73
TELECOMMUNICATIONS	14.9	14.7	16.6	16.3	4.35	4.35	4.65	5.14
Fixed-Line Telecoms	15.5	15.2	13.3	11.6	2.68	2.99	3.40	4.71
Mobile Telecoms	14.8	14.6	17.8	18.5	4.84	4.75	5.02	5.27
UTILITIES	14.4	14.5	13.6	12.8	4.92	5.07	5.31	5.59
Electricity	12.5	13.4	12.4	11.1	5.44	5.32	5.55	5.99
Gas, Water & Multi-Utilities	15.0	14.8	14.0	13.3	4.78	5.01	5.24	5.48
TECHNOLOGY	27.7	25.8	22.2	19.1	1.19	1.38	1.62	1.88
Software & Computer Serv	19.3	19.0	17.2	15.3	1.83	2.00	2.21	2.42
Technology Hardware & Equip	41.9	35.6	28.6	23.8	0.69	0.90	1.16	1.47
TOTAL NON-FINANCIAL	13.9	14.2	13.3	12.3	3.32	3.50	3.65	3.90
FINANCIALS	14.4	12.2	11.4	10.4	3.09	3.37	4.07	4.72
Banks	13.4	11.0	10.1	9.2	2.77	3.27	4.27	5.20
Non-Life Insurance	11.8	10.7	10.3	9.9	5.42	4.80	5.04	5.29
Life Insurance	13.3	13.2	12.2	11.4	3.35	3.54	3.86	4.17
Real Estate Inv. Servs	32.8	28.3	25.4	22.6	1.95	2.10	2.26	2.36
REITS	26.4	26.1	24.4	22.6	3.27	3.39	3.52	3.67
Financial Services	18.3	12.7	12.6	11.4	3.38	3.21	3.63	3.99
FTSE ALL SHARE	14.0	13.7	12.8	11.8	3.27	3.48	3.74	4.07
FTSE 100	13.6	13.4	12.5	11.7	3.39	3.62	3.89	4.24
Mid 250	16.7	16.0	15.0	13.3	2.57	2.58	2.84	3.09
Small Cap	20.7	17.7	14.6	11.7	2.27	2.32	2.50	2.70

Source: Citi Research & DataStream

Figure 55. Stocks Mentioned In The Report

Stock Name	RIC	Price	Rating	Currency	Stock Name	RIC	Price	Rating	Currency
ABB	ABBN.VX	23.13	2	CHF	Kingfisher	KGF.L	3.79	1	GBP
Aberdeen Asset Man.	ADN.L	4.45	2	GBP	Kuehne+Nagel Intl.	KNIN.VX	114.90	1	CHF
ABInbev	ABI.BR	75.89	1	EUR	Legal & General	LGEN.L	2.18	2	GBP
Actelion	ATLN.VX	70.00	2	CHF	Legrand	LEGD.PA	42.10	2	EUR
Adecco R	ADEN.VX	66.25	3	CHF	Lloyds Banking Group	LLOY.L	0.78	2	GBP
Admiral Group	ADML.L	12.74	2	GBP	LVMH	LVMH.PA	141.85	1	EUR
Aegon	AEGN.AS	5.86	2	EUR	Marks & Spencer Group	MKS.L	4.92	1	GBP
Aggreko	AGGK.L	16.02	1	GBP	Melrose Industries	MRON.L	3.21	2	GBP
Ahold Kon.	AHLN.AS	14.03	1	EUR	Merck KGAA	MRCG.DE	122.70	2	EUR
Air Liquide	AIRP.PA	99.99	2	EUR	Michelin	MICP.PA	77.36	1	EUR
Alfa Laval	ALFA.ST	148.80	2	SEK	Mondi	MNDI.L	11.16	2	GBP
Allianz	ALVG.DE	123.25	1	EUR	Nestle R	NESN.VX	65.35	1	CHF
ASML Hldg	ASML.AS	69.55	1	EUR	Next	NXT.L	54.13	1	GBP
Assa Abloy B	ASSAb.ST	317.10	3	SEK	Nokia	NOK1V.HE	5.59	2H	EUR
Assicurazioni Generali	GASI.MI	17.09	3	EUR	Nordea Bank	NDA.ST	83.90	1	SEK
AstraZeneca	AZN.L	32.86	2	GBP	Novartis R	NOVN.VX	70.50	1	CHF
Atlas Copco A	ATCOa.ST	181.30	3	SEK	Novo Nordisk B	NOVOb.CO	987.00	1	DKK
Aviva	AV.L	4.51	1	GBP	Pernod-Ricard	PERP.PA	88.74	2	EUR
AXA	AXAF.PA	18.27	1	EUR	Philips Electronics	PHG.AS	26.02	1	EUR
Barclays	BARC.L	2.68	1	GBP	Prudential	PRU.L	12.80	1	GBP
Bayer	BAYGn.DE	91.52	1	EUR	Randgold Resources	RRS.L	46.63	3	GBP
Beiersdorf	BEIG.DE	70.59	1	EUR	RBS	RBS.L	3.67	3H	GBP
BHP Billiton	BLT.L	19.48	2	GBP	Reckitt Benckiser Group	RB.L	48.34	1	GBP
BMW	BMWG.DE	83.19	2	EUR	Renault	RENA.PA	65.64	1	EUR
BNP Paribas	BNPP.PA	54.37	1	EUR	Resolution	RSL.L	3.57	2	GBP
BP	BP.L	4.85	2	GBP	Richemont N	CFR.VX	92.40	1	CHF
Brenntag	BNRGn.DE	124.55		EUR	Rio Tinto	RIO.L	32.01	1	GBP
British American Tobacco	BATS.L	34.59	1	GBP	Roche	ROG.VX	250.70	1	CHF
BSKyB	BSY.L	9.35	1	GBP	Royal Dutch Shell A	RDSa.L	20.83	2	GBP
Burberry Group	BRBY.L	15.38	2	GBP	Ryanair Holdings	RYA.I	6.12	1	EUR
Cap Gemini	CAPP.PA	48.66	1	EUR	Sanofi	SASY.PA	78.60	1	EUR
Christian Dior	DIOR.PA	139.95		EUR	SAP	SAPG.DE	57.70	2	EUR
Coloplast 'B'	COLOb.CO	325.40	1	DKK	Schneider Electric	SCHN.PA	61.81	2	EUR
Continental	CONG.DE	134.85	1	EUR	Seadrill	SDRL.OL	275.80	1	NOK
Credit Agricole	CAGR.PA	8.89	1	EUR	SEB A	SEBa.ST	78.45	1	SEK
Credit Suisse R	CSGN.VX	28.37	1	CHF	SGS N	SGSN.VX	2117.00	1	CHF
Daimler	DAIGn.DE	60.22	2	EUR	Shire	SHP.L	27.70	1	GBP
Danone	DANO.PA	54.69	2	EUR	Siemens	SIEGn.DE	93.58	1	EUR
Danske Bank	DANSKE.CO	125.70	1	DKK	Skanska B	SKAb.ST	125.00		SEK
Dassault Systemes	DAST.PA	88.94	1	EUR	Smith & Nephew	SN.L	7.94	2	GBP
Deutsche Boerse	DB1Gn.DE	55.30	2	EUR	Smiths Group	SMIN.L	14.21	3	GBP
Deutsche Telekom	DTEGn.DE	11.53	2	EUR	Societe Generale	SOGN.PA	41.78	1	EUR
DNB	DNB.OL	105.50	2	NOK	Sodexo	EXHO.PA	71.56	1	EUR
EADS	EAD.PA	49.97	1	EUR	SSE	SSE.L	14.15	3	GBP
ENI	ENI.MI	18.21	2	EUR	Standard Ch	STAN.L	15.11	1	GBP
Essilor Intl.	ESSI.PA	79.66	1	EUR	Standard Life	SL.L	3.53	2	GBP
GBL	GBLB.BR	65.57		EUR	Svenska Handbkn	SHBa.ST	295.60	2	SEK
Geberit R	GEBN.VX	264.90	3	CHF	Swatch B	UHR.VX	580.50	2	CHF
GKN	GKN.L	3.67	1	GBP	Syngenta	SYNN.VX	366.80	2	CHF
Hargreaves Lansdown	HRGV.L	11.91	3	GBP	Tate & Lyle	TATE.L	7.89	1	GBP
HeidelbergCement	HEIG.DE	57.91	1	EUR	Telefonica	TEF.MC	12.90	2	EUR
Henkel Pref.	HNKG_p.DE	79.54	2	EUR	Total	TOTF.PA	45.06	2	EUR
HSBC Holdings	HSBA.L	6.84	1	GBP	Tullow Oil	TLW.L	9.49	2	GBP
IAG	ICAG.L	3.53	1	GBP	UBS	UBSN.VX	17.59	1	CHF
IMI	IMI.L	15.28	1	GBP	Unilever (UK)	ULVR.L	25.24	2	GBP
ING Groep	ING.AS	9.38	1	EUR	Unilever Certs.	UNc.AS	29.15	2	EUR
Intertek Group	ITRK.L	33.50	1	GBP	Valeo	VLOF.PA	73.42	1	EUR
Intesa Sanpaolo	ISP.MI	1.82	3H	EUR	Weir Group	WEIR.L	22.86	2	GBP
ITV	ITV.L	1.92	1	GBP	William Hill	WMH.L	4.01	1	GBP
KBC Groupe	KBC.BR	39.96	1	EUR	WPP	WPP.L	13.22	2	GBP
Kering	PRTP.PA	167.75	1	EUR	Yara International	YAR.OL	257.50	1	NOK

Source: Citi Research. *Prices as of 30th October 2013

Notes

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Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Nokia Oyj
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