European Portfolio Strategist

Pan-European — Edging Back to Risk*

- **Risk-off** — European equities have given up all early-year gains. Total returns are now 0% YTD. It feels and sounds a lot worse. Risk-off consistent across financial markets.
- **Risk-on** — Policy action most likely source of next risk-on move. Most indicators suggest we are closer than 2-3 months ago. We suggest Risk+ strategies such as 3Bs.

UK – Jubilee

- **Back to '52** — High government debt ratios, dividend yields above financially repressed gilt yields and a single-digit PE, nearly. 2012 has much in common with 1952.
- **Celebration** — Equity returns have been around double-digits compound from current valuations. With an index that is more global now, earnings are not UK dependent.

Figure 1. Europe's Most Expensive Stocks (Top Quintile on 12-Month Forward P/E)

Source: Datastream & CIRA.

- Equities

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

*CORRECTION NOTE: We incorrectly stated German bunds and equities have returned 70% instead of 7% each YTD in the original.

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Nothing. Nada. Nought. Big fat zero. That is what European equities have returned YTD. It feels and sounds worse than that. Bulls say resilient. Bears say complacent. A score-draw, for now.

This masks significant performance divergence across Europe, which has broadly mirrored sovereign divergence. For example, German bunds and equities have returned 7% each YTD, compared to -6% and -26% from Spanish bonds and equities.

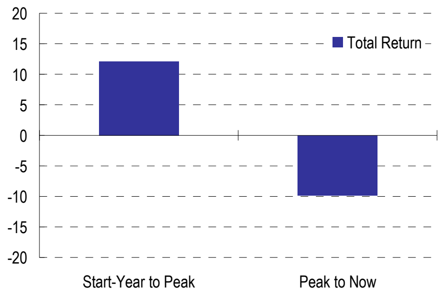
We think that markets continue to present two opportunities for investors: 1) structural and 2) tactical. The first is the structural re-rating of strong credit, growth and quality (all cover sustainable income). The second is the tactical opportunity of the risk on/risk off (RoRo) trade[1]. We still back our structural themes, eg World Champions, Defensive Growth, CDS-adjusted DYs. But, we also think that we are closer to the next phase of policy (re)action than we were at end-February/start-March when we lowered exposure to beta[2] and raised exposure to fundamental factors such as earnings momentum[3].

Overall, the recent sell-off in equities offers investors an opportunity to edge back towards risk. But, risk does not look as attractive as it did in summer 2011 or in early 2009. Quality and growth have also cheapened in the last few weeks. We think investors should use the recent sell-off to raise exposure to our structural themes and to add risk in a measured way, i.e. acceptable risk. Here, we would prefer to look at risk strategies that also have exposure to quality/fundamental support. We suggest three options: 1) 3Bs, 2) strong banks and 3) risk/quality combo strategy.

Risk on/risk off

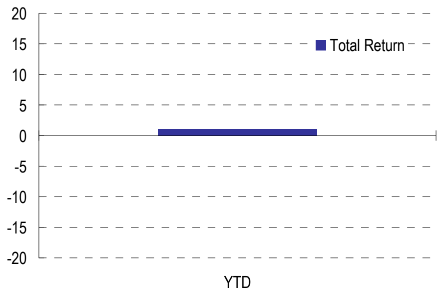
European equities have been on a short round-trip so far this year. Liquidity from policy makers helped to drive risk on in January and February. Equities rallied and sovereign/corporate spreads tightened. Fading liquidity support met increasing sovereign/political/financial system risks across the Euro Area and slowing growth in China to unwind early year equity gains and drive spreads wider in the past few months. Figure 3 shows that 2012's risk-on/risk-off markets has left European equity returns close to 0%.

Figure 2. Stoxx Total Return



Source: DataStream

Figure 3. Stoxx Total Return YTD

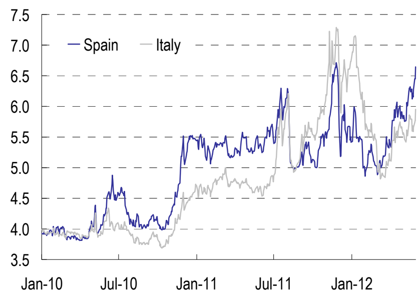


Source: DataStream

[1] Global Equity Strategist - The Best RoRo Trades In Global Equities — 28 March 2012.
[2] European Portfolio Strategist - UK/Pan-European — Are We Nearly There Yet?— 23 February 2012.
[3] European Portfolio Strategist - UK/Pan-European — Do Earnings Matter?— 1 March 2012.

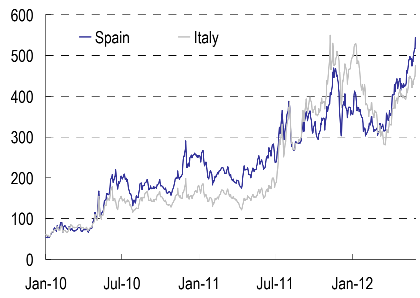
Figure 4 and Figure 5 show 10-year bond yields for Spain and Italy and spreads against German bunds. Peripheral yields and spreads have been a good barometer of the Euro Area sovereign crisis and have been closely correlated to the RoRo trade in financial markets.

Figure 4. Italy and Spain Gov. Bond Yields



Source: DataStream

Figure 5. Italy and Spain Gov. Bond Spreads



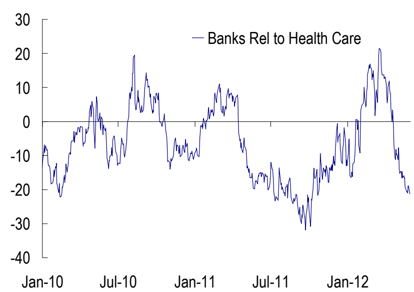
Source: DataStream

In the Euro Area, Spain has overtaken Italy as the key sovereign pressure point for financial markets. With Spanish yields approaching 7% and spreads to bunds over 500bps, it appears that we are closer to renewed policy action than we were in March this year. Our rate strategists suggest further upside risk for Spanish 10-year bond yields and that spreads could head towards 600bps over the coming 6-months.

Risk building

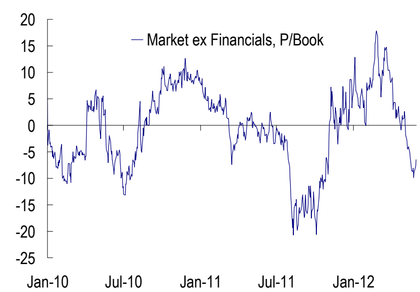
Risk-off in equity markets. Euro Area sovereign risks building, as shown by bond yields and spreads in the periphery. What else? Figure 6 to 10 show a variety of different indicators that can help investors to gauge how the risk landscape has changed.

Figure 6. Banks Rel to Health, 3m Change %



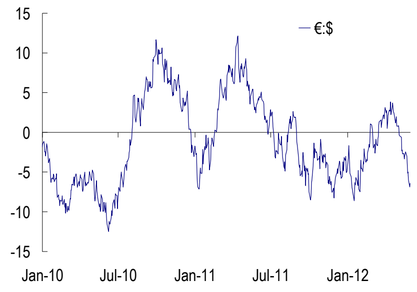
Source: Datastream.

Figure 7. Market ex Financials, 3m Change %



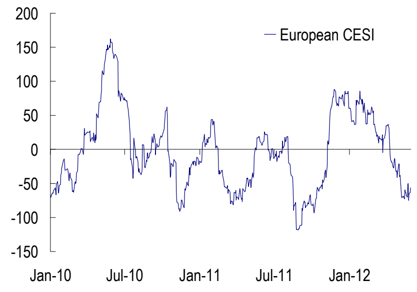
Source: Datastream.

Figure 8. €: $, 3m Change %



Source: Datastream.

Figure 9. Euro Area CESI, 3m Change



Source: Datastream.

We compare current levels to 3-months prior for each market/indicator since the start of 2010. Risk-off is consistent across financial markets and Euro Area economic indicators such as the Euro Area CESI.

Priced in

Equity markets have been weak. Risks are clear. But, how much bad news is already priced in? Most valuation metrics lead us to the same conclusion — equities look cheap unless earnings collapse and earnings are unlikely to collapse unless we get closer to synchronised global recession.

A global GDP crisis, in addition to the debt crisis in Europe and the US, would present a nasty backdrop to risk assets, even at current price levels. For policy makers and politicians, it is important that a GDP crisis does not emerge. Downside risks could compound in such a scenario. Repair could be more expensive.

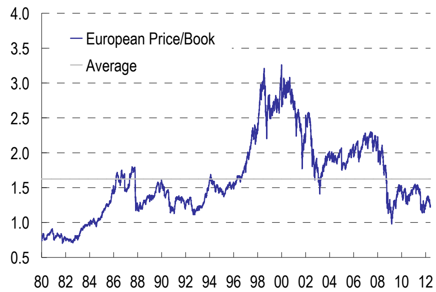
Our economists continue to highlight downside risks to growth, mainly in Europe and more recently in China[4]. However, they still expect global nominal GDP growth of 5.5-6.0% in 2012-13E. This is a long way from global recession and implies reasonable support for corporate profits growth. Economic expectations need to fall sharply to imply profit collapse.

European equities now trade on 9.5x 12-month forward earnings. This is just 11% above summer 2011 lows and 18% below the average level of the past 10 years. UK and German equities have never looked cheaper, on data going back almost 100 years, when comparing dividend yields to respective sovereign bond yields.

Figure 10 and Figure 11 show European equities on a price/book basis for the whole market and for market ex-financials. Respectively, the current price/book level is 8% and 10% above last summer lows and 26% and 22% above the March 2009 lows. Compared to average price/book multiples in 4Q08, the market is now cheaper (1.23x vs 1.30x) or at an equivalent level for ex-financials (1.58x vs 1.59x).

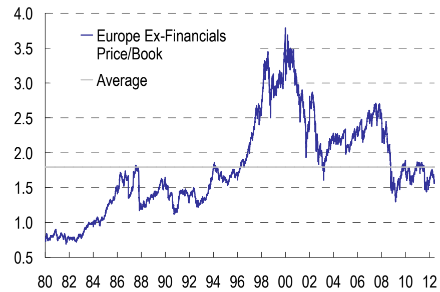
[4] Global Economic Outlook and Strategy — 23 May 2012.

Figure 10. Europe Price/Book



Source: DataStream

Figure 11. Europe Ex-Financials Price/Book



Source: DataStream

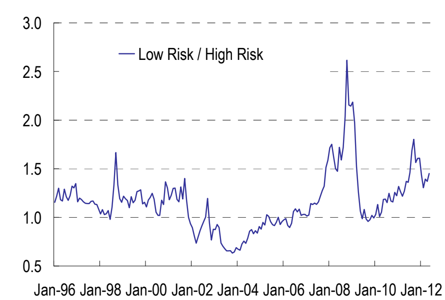
Equities look cheap unless book value collapses for either financial or non-financial companies. The former could happen selectively as the Euro Area crisis plays out (over several years). The latter would probably need to see an extended slowdown in the global economy from current levels of modest growth or a sharp synchronised global economic recession. Our economists do not think such weakness at the global level is likely.

Risk vs quality

So, if a lot of bad news is priced in and if multiple risk factors suggest that we are closer to a policy reaction than we were a few months ago, should investors raise exposure to risk across equity markets?

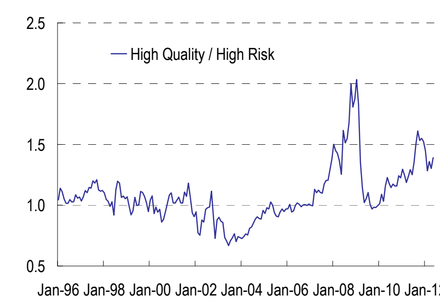
Figure 12 and Figure 13 from our European Quantitative Strategy team provide additional analysis. The former shows the valuation spread, using earnings yields, for low and high risk European equities. This is derived from the top and bottom quintiles of our quant team's risk style, which is based on various factors such as profitability and financial strength. High risk looked cheap in late-08/early-09 and also in 2H11. Now, high risk does not appear to offer the same value opportunity.

Figure 12. Low vs High Risk, Valuation Spread



Source: Factset & CIRA

Figure 13. High Quality vs Risk, Val Spread



Source: Factset & CIRA

Similarly, when comparing high quality (top quintile quality factor from our quant team) to high risk, Figure 13 shows that high quality has not been re-rated versus high risk in the same way that it was in the 2008-09 crisis and also in summer 2011. This suggests that it is not high risk that presents an attractive an investment option now.

Figure 14. Europe's Most Expensive Stocks (Top Quintile on 12-Month Forward P/E)

Source: DataStream & CIRA

We would add Figure 14 to this debate. This shows the average 12-month forward P/E for the most expensive stocks in Europe, i.e. top quintile. Expensive stocks actually look cheap in absolute terms compared to their 25-year history and have rarely been cheaper.

What to do

Our economists do not expect a policy reaction to recent market and financial system stress in the near-term. But, they continue to back policy action to limit any contagion risks presented by Grexit or other Euro Area crisis developments. Nonetheless, using a variety of metrics, it seems that we are closer to policy action than we were three months ago. We therefore think that there is a building case for adding risk to portfolios. However, we also note that risk itself does not look as cheap as it did in previous phases of crisis in the past few years and that many of our structural strategies continue to offer investors good absolute value[5].

So, we suggest two things: 1) buy market exposure into the sell-off through a combination of our strategy themes and our analysts strongest buy ideas, and 2) raise exposure to risk+ strategies, i.e. risk backed by quality/fundamental support.

The Citi Focus List Europe

This week, we launched the Citi Focus List Europe[6]. This represents our European analysts' strongest Buy ideas for the next 12 months, as well as reflecting our own preferred investment themes, such as World Champions, Defensive Growth, and 3Bs.

[5] European Forecast Monitor - Quality Core vs Peripheral Risk — 24 May 2012.

[6] Citi Focus List Europe - Analysts' Key Buy Ideas*— 30 May 2012.

Figure 15. Citi Focus List Europe

Company	RIC	Target Price	Current Price	Key Research	Strategy Themes[7]	Lead Analyst	Telephone
ABB	ABBN.VX	SFr 23.0	SFr 15.8	An Improving Track Record	Q, CDS DY, SIS	Mark Fielding	44 (0)20 7986 4018
AB-InBev	ABI.BR	€ 63.0	€ 55.1	More Beer, Less Tax	WC	Andrea Pistacchi	44 (0)20 7986 0767
Barclays	BARC.L	£ 3.3	£ 1.8	The Pain in Spain		Andrew Coombs	44 (0)20 7986 4053
BAT	BATS.L	£ 34.0	£ 30.3	Smoking Prices in Emerging Markets	WC, DG, CDS DY, SIS	Adam Spielman	44 (0)20 7986 4211
BHP Billiton	BLT.L	£ 23.0	£ 17.5	Home Improvement	WC, DG, 3Bs	Heath Jansen	44 (0)20 7986 3921
BSkyB	BSY.L	£ 8.5	£ 7.0	Updating the Buy Thesis & Upgrading TP to 850pp	Q	Tom Singlehurst	44 (0)20 7986 4051
Danone	DANO.PA	€ 62.0	€ 52.3	Superior Growth and Receding Risks; Upgrade to Buy	DG	Robert Dickinson	44 (0)20 7986 4431
EADS	EAD.PA	€ 36.5	€ 27.8	Still a Buy, Despite A380 Difficulties	WC, Q	Jeremy Bragg	44 (0)20 7986 1089
Fresenius SE	FREG.DE	€ 105.0	€ 76.4	Acquisition of RHK – ROIC Analysis	DG	Cora McCallum	44 (0)20 7986 4047
GlaxoSmithKline	GSK.L	£ 16.1	£ 14.2	£2.3bn Skin Cancer Opportunity for GSK	WC, CDS DY	Andrew Baum	44 (0)20 7986 4498
HSBC	HSBA.L	£ 6.5	£ 5.1	From Local Small Bank to World's Connected Bank	WC	Ronit Ghose	44 (0)20 7986 4028
Inditex	ITX.MC	€ 82.0	€ 69.1	The Colour Of Spring	WC, DG, Q	Richard Edwards	44 (0)20 7986 4006
Linde	LING.DE	€ 150.0	€ 125.5	Growth Potential Explored: Upgrading Linde To Buy		Andrew Benson	44 (0)20 7986 3925
PPR	PRTP.PA	€ 154.0	€ 119.4	There's Still Time to Trade Up Into Luxury		Thomas Chauvet	44 (0)20 7986 4147
Prudential	PRU.L	£ 8.5	£ 6.9	Eastern Promise, Western Risks	WC	Raghu Hariharan	44 (0)20 7986 3975
Saipem	SPMI.MI	€ 50.0	€ 33.0	Top of the Cheap Stock Queue		Ryan Kauppila	44 (0)20 7986 4467
SAP	SAPG.DE	€ 65.0	€ 33.0	SAP Core Growth is Underappreciated	WC, DG, SIS	Gunnar Plagge	44 (0)20 7986 4234
TeliaSonera	TLSN.ST	SKr 50.0	SKr 44.1	Alpha Switch	Q, CDS DY	Laurie Fitzjohn-Sykes	44 (0)20 7986 4114
Wolseley	WOS.L	£ 28.5	£ 22.8	Value Opportunities Creeping Back In	3Bs	Clyde Lewis	44 (0)20 7986 4272

Source: Citi Investment Research and Analysis, 30th May

Figure 15 shows the 19 stocks in the Citi Focus List Europe. These are stocks that we would look to raise exposure to into weaker markets, i.e. now.

Figure 16. Focus List – Qualities vs Market

	Market	Focus List - Simple Average
PE 2012	10.3	12.8
PE 2013	9.1	11.2
2yr Ann Earn Growth	11	15
-3m Abs Earn Mo	1	5
-6m Abs Earn Mo	0	9
-3m Rel Earn Mo		3
-6m Rel Earn Mo		8
DY 2012	4.45	3.52
2yr Ann Div Growth	8	14
DY*G	35	42
Div Cover 2012	2.19	2.62
P/B 2012	1.3	3.28
FCF Yield 2012	6.1	5.8
EV/EBITDA 2012	5.6	7.4
Net Debt/EBITDA 2012	1.2	0.6
EM Exposure	24	34
US Exposure	17	20
Euro Exposure	56	42
Beta		1.00

Source: Citi Investment Research and Analysis

Figure 16 compares the Citi Focus List Europe's key characteristics, as a simple equally-weighted group, to the market. The Focus List is more expensive than the market but is expected to deliver faster earnings growth over the next couple of years. Earnings momentum trends are better than market and the group also has a higher DY*G score, i.e. income adjusted by expected income growth. Balance sheets are stronger. There is more EM exposure and less European exposure. Last, the group has an average beta of 1.

[7] **Strategy Themes Key:** WC – World Champions, DG – Defensive Growth, Q – Quality (High ROE & strong Balance Sheet), CDS DY – CDS adjusted dividends, SIS – Strong in Strong, 3Bs – Big, Balance Sheet & Beta

Risk+ strategies

We consider three risk strategies: 1) 3Bs, 2) Risk & Quality, and 3) Strong Banks. All of these strategies look to combine risk with quality/fundamental support.

Figure 17 shows European companies which offer investors exposure to the 3Bs — bigger caps, beta and balance sheet strength. We screen for stocks with a market cap above €10bn, a beta above 1.1x and 2012E net debt/EBITDA less than 1.5x.

Figure 17. 3Bs — Bigger Caps, Beta and Balance Sheet Strength

		>€10bn	>1.1	<1.5	-3m Rel Earn Mo		
Stock	**RIC**	**Market Cap**	**Beta**	**ND/EBITDA 2012**	**Now**	**Previous**	**Rel Perf, YTD**
Restricted		23280	1.76	0.95	-5	-15	2
Volvo B	VOLVb.ST	12769	1.74	-1.22	4	6	10
Daimler	DAIGn.DE	34708	1.72	0.72	4	7	14
Saint Gobain	SGOB.PA	13349	1.66	1.37	0	-6	0
Sandvik	SAND.ST	11830	1.63	0.93	7	7	13
Rio Tinto	RIO.L	48452	1.56	0.45	-3	-8	-5
BMW	BMWG.DE	20574	1.51	-1.02	10	4	22
Anglo	AAL.L	34542	1.49	0.66	-2	-13	-11
Bayer	BAYGn.DE	42861	1.48	0.89	2	3	5
Schneider Electric	SCHN.PA	24531	1.46	1.15	6	2	8
BASF	BASFn.DE	53263	1.37	0.82	8	-1	7
BHP Billiton	BLT.L	46795	1.36	0.58	-3	-7	-3
Atlas Copco	ATCOa.ST	11160	1.32	0.42	2	9	3
Philips	PHG.AS	13399	1.31	0.23	2	-1	-6
Richemont	CFR.VX	25093	1.23	-1.58	8	10	22
LVMH	LVMH.PA	32575	1.22	0.45	4	6	10
BG Group	BG.L	53821	1.19	1.31	7	8	-5
ENI	ENI.MI	41500	1.13	0.89	3	0	-3
EADS	EAD.PA	10073	1.12	-2.52	13	15	14
Siemens	SIEGn.DE	59180	1.11	0.28	-1	-4	-7
Deut Post	DPWGn.DE	11493	1.11	-0.10	4	3	15
ABB	ABBN.VX	30568	1.10	-0.01	0	6	-9

Source: Datastream & CIRA.

This strategy has clear exposure to emerging market and cyclical growth. There continue to be near-term risks on Chinese growth and our economists expect 2Q12 GDP growth to print below 8%.

Figure 18. Risk & Quality — European Stocks Scoring in Top Two Quintiles for Both Styles

Stock	RIC	Market Cap €m	Current 3m Earn Mo	Prev 3m Earn Mo	In 3Bs?
Siemens	SIEGn.DE	59180	-1	-4	Y
Rio Tinto	RIO.L	48452	-3	-8	Y
Abb 'R'	ABBN.VX	30568	0	6	Y
Deutsche Bank	DBKGn.DE	27222	-1	-4	
Axa	AXAF.PA	17599	-4	2	
Asml Holding	ASML.AS	15219	15	22	
Philips Eltn.Koninklijke	PHG.AS	13399	2	-1	Y
Adidas	ADSGn.DE	12702	5	5	
Wpp	WPP.L	12545	10	8	
Iberdrola	IBE.MC	11710	-11	0	
Deutsche Post	DPWGn.DE	11493	4	3	
Generali	GASI.MI	11397	-7	1	
Atlas Copco 'A'	ATCOa.ST	11160	2	9	Y
The Swatch Group 'R'	UHR.VX	9868	3	8	
Aviva	AV.L	9813	0	4	
Henkel Pref.	HNKG_p.DE	9384	4	4	
Telenor	TEL.OL	8945	-3	6	
Ppr	PRTP.PA	8943	7	0	
Technip	TECF.PA	8229	8	0	
International Power	IPR.L	7902	1	2	
Infineon Technologies	IFXGn.DE	6948	8	1	
Restricted		6550	9	-2	
Tenaris	TS.N	6457	6	7	
Geberit 'R'	GEBN.VX	6372	2	6	
Skf 'B'	SKFb.ST	6149	1	2	
Legrand	LEGD.PA	6058	1	0	

Source: Citi Investment Research and Analysis and DataStream

In our second risk strategy, we look for stocks that appear in the top two quintiles of our quant team's quality factor (i.e. high quality) and which also appear in the top two quintiles of their risk factor (i.e. high risk). Figure 18 shows those stocks with a market cap above €5bn that fit the bill. There is some overlap with the 3Bs.

Figure 19. Banks Screen

Stock	RIC	Market Cap €m	>1 Beta	-3m Rel Earn Mo	-Prev 3m Rel Earn Mo	Rel Perf YTD	>12 Tier 1 Ratio	<200 CDS
UBS R	UBSN.VX	33470	1.18	-2	0	3	22%	198
Deutsche Bank	DBKGn.DE	27222	1.79	-1	-4	0	13%	199
Credit Suisse R	CSGN.VX	18073	1.34	2	-4	-12	20%	200
Nordea Bank	NDA1V.HE	15864	1.32	4	-4	2	13%	162
Svenska Handbkn	SHBa.ST	11009	1.00	0	5	14	19%	120
Swedbank A	SWEDa.ST	9885	1.83	3	3	17	18%	196

Source: Citi Investment Research and Analysis and DataStream

Our final risk strategy delves into Banks. Last week, we showed which European financials also have positive relative earnings trends over the past 3 months. This screen was dominated by non-Euro Area Banks and Insurers. Figure 19 shows those European banks that have a beta above 1, a Tier 1 capital ratio above 12%, and a CDS of 200 or below. Six stocks make the cut. We would look to add financial risk through these names, but would remain wary of over-committing to European financials in general given structural headwinds and near-term risks.

Strategy outlook

Risk on, risk off. That is the tactical trade which keeps many investors awake at night. We would stick to our structural themes, but many do not have the luxury of such a strategy. So, where are we in the RoRo cycle?

We suggest that now is time for investors to take on some risk. We would do this two ways. First, we would highlight market exposure through the Citi Focus List Europe. This combines our core strategy themes with our analysts' strongest Buy ideas. Second, we would look to what we call "Risk+" strategies. These attempt to combine risk with quality/fundamental factors.

UK — Jubilee

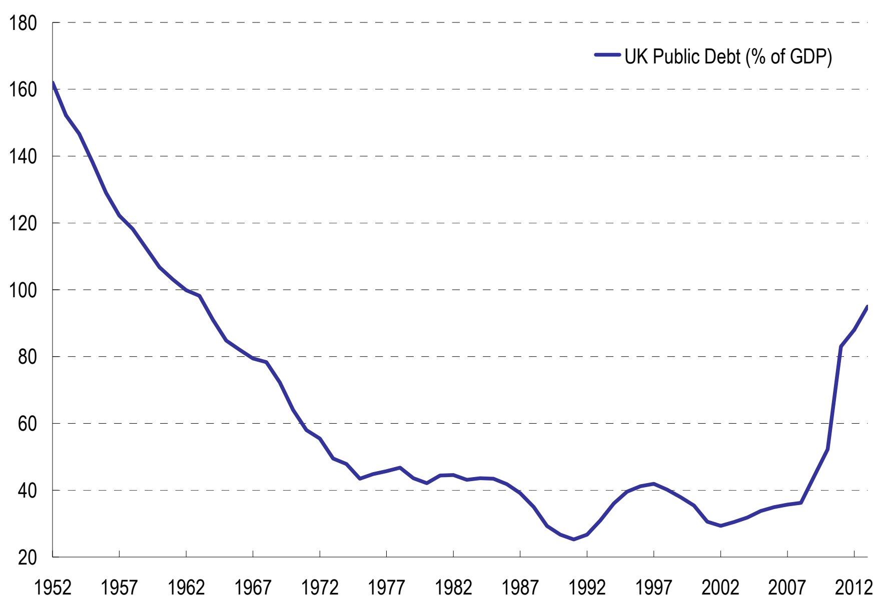
Street parties. Bunting. Cheering crowds. Bank holidays. Flag waving. As the UK gets ready to celebrate 60 years on the throne for Queen Elizabeth II, we look at the equity market over the same period. Few investors are flag waving for equities at the moment but history provides a broader canvas to work with.

We really could do with a jubilee

Jubilee as debt forgiveness

Biblically a Jubilee year comes at the end of seven cycles of Sabbatical years, which themselves are 7 years long. So it is 50 years, not the 60 we are celebrating now. But what is interesting is that a biblical jubilee also saw the return of land to the original owner and the cancellation of debt related to the land. The aim was to prevent a build-up of wealth in the hands of the few and prevent debt getting out of control.

Figure 20. UK Government Debt to GDP 1952-2012 (%)



Source: Citi Investment Research and Analysis and UK Treasury

With government debt to GDP ratios forecast by Citi economists to be around 100% by 2013, the forgiveness of debt for the government would be nice for the borrower. The fear of debt default of course is the key driver to the Eurozone crisis. Private sector indebtedness is at 220% of GDP currently, off the peak of 230% (ish) but still the highest levels in the developed world. Debt forgiveness here would be great for the indebted. Not so good for the creditors. So a biblical jubilee may be what the indebted would like and it would go some way towards placating the 99%, but that's not the sort of jubilee we are likely to have. Instead we will have cucumber sandwiches.

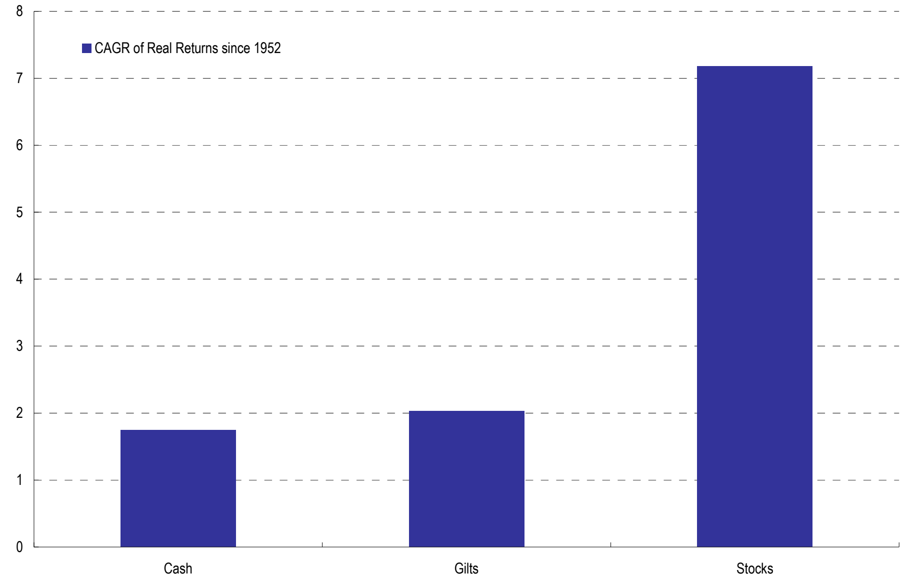
Crowned in financial repression

Figure 20 shows the accession of the Queen occurred when UK government debt ratios were sharply higher than they are now as the consequence of the war. In 1946, they were closer to 220% so had already fallen sharply by 1952. However, the initial years of the reign were accompanied by austerity and ongoing financial repression. The start of the 61st year is accompanied by austerity and incipient financial repression.

60-year returns

Over the 60 years of her reign, the returns for equities, bonds and cash show equities as the leading asset class, despite the poor returns of the last decade. Hopefully the Queen's broker has had her fully invested in equities.

Figure 21. 60 Year Compound Annual Growth Rate Adjusted for Inflation (%)



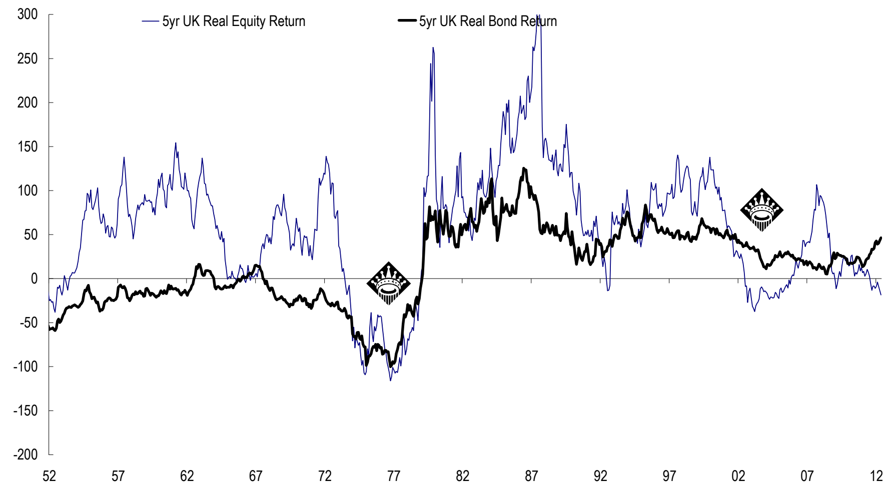
Source: Citi Investment Research and Analysis, Global Financial Data and DataStream

Equities highest returns over 60 years

Figure 21 details the compound annual real returns since 1952. Equities have produced just over 7% annual returns, while cash and bonds have both delivered around 2%.The buy-and-hold equity investor has done best in equities during the Queen's reign.

This average performance of course covers a range of periods. Most notably two major bull markets for equities and one for bonds.

Figure 22. 5 Year Rolling Real Returns Equities and Bonds 1952-2012



Source: Citi Investment Research and Analysis, Global Financial Data and DataStream

Figure 22 shows the 5-year rolling real returns of equities and bonds. The first decade of the Queen's reign saw consistent strong returns from equities, while real returns were negative from bonds. Financial repression was in full effect, which is one way in which the UK government debt ratios were reduced. By the time we reached the Silver jubilee in 1977, rolling returns for bonds and equities had become negative as inflation picked up. The 70s were miserable for all investors.

From the lows for both around 1977, returns improved as inflation fell. From the early 80s we saw two bull markets, one for bonds that is still going today and one for equities that peaked in 2000.

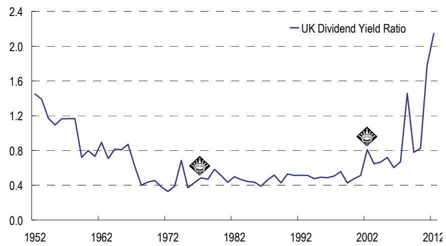
60 years of valuations

Over 60 years, returns have been highest from equities. We now turn to how valuation has evolved over the same period.

Birth and death of the equity cult

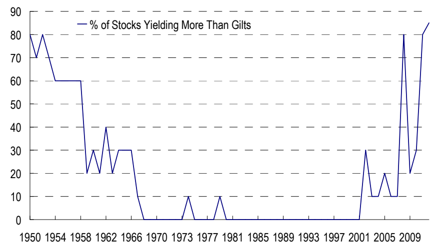
The move in the relative value of equities and Gilts over this period is highlighted in Figure 23. 1952 and the equity market yielded more than the gilts. This yield gap became the inverse yield gap in 1958/9 as pension schemes asset allocated away from bonds towards equities. The birth of the cult of the equity preceded the birth of Prince Andrew by a year. Since the end of the TMT boom, equities have been steadily derated against bonds to a point where the inverse yield gap has become the yield gap again. The cult of the equity has died. So 60 years on and we are back where we started.

Figure 23. UK DYR 1952-2012



Source: CIRA, GFD and DataStream

Figure 24. % of Stocks Yielding > Gilts 50-12



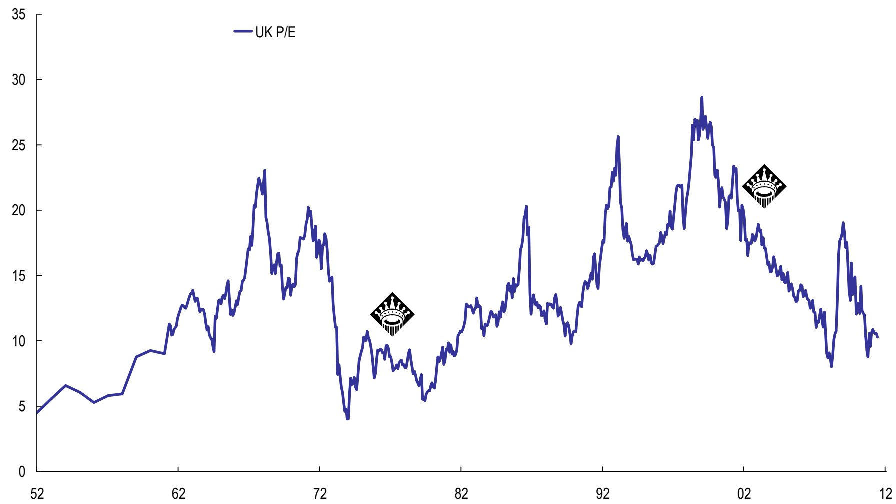
Source: CIRA, GFD and DataStream

Back to 50s again

The other way we can look at this is the proportion of stocks that yield more than Gilts. We have actual data running from the mid 60s but for Figure 24 create a synthetic breakdown of company dividend yields through the period. Like the DYR chart, the proportion of stocks yielding more than Gilts is back to the early 50s level.

The re-rating and de-rating of equity can be seen in Figure 25 below. 60 years ago the PE was 5x and through the first period of financial repression equities got rerated up to over 20x. The high level of inflation in the 70s saw the PE head back to single digits. The bull market from the mid-70s lows peaked in 2000 with the multiple over 30x. The last decade has of course been about another sharp derating, with the market PE close to single-digits now.

Figure 25. UK PE 1952-2012



Source: Citi Investment Research and Analysis, Global Financial Data and DataStream

60 years and we are close to having gone full circle on both the PE and the relationship between bonds and equities.

60 years of index changes

Wool and beer to….

Having been crowned in financial repression with dividend yields above gilt yields, a low PE and high levels of government debt, it is easy to say not much has changed. However what about the make-up of the index? What is different about the companies that aggregate up to the market today compared to history?

Figure 26. FT 30 1931-today

Original Constituents	1952	1977	Now
Associated Portland Cement	Associated Portland Cement	Associated Portland Cement	Compass (CPG.L)
Austin Motor	William Cory	John Brown	Lloyds TSB (LLOY.L)
Bass	Leyland Motors	Boots Pure Drug	Man Group (EMG.L)
Bolsover Colliery	Peninsular Oriental Steam Navigation	Peninsular Oriental Steam Navigation	Land Securities (LAND.L)
Callenders Cables & Construction	Spillers	Spillers	Smiths Group (SMIN.L)
Coats (J & P)	Coats (J & P)	Bowater Paper	British Telecom (BT.L)
Courtaulds	Courtaulds	Courtaulds	Prudential (PRU.L)
Distillers	Distillers	Distillers	Diageo (DGE.L)
Dorman Long	Swan Hunter	Plessey	International Airways Group (ICAG.L)
Dunlop Rubber	Dunlop Rubber	Dunlop Rubber	Vodafone (VOD.L)
Electrical & Musical Industries	Electrical & Musical Industries	Electrical & Musical Industries	WPP (WPP.L)
Fine Spinners and Doublers	Lancashire Cotton	United Drapery Stores	Tesco (TSCO.L)
General Electric	General Electric	General Electric	BAT (BATS.L)
Guest Keen & Nettlefolds (GKN)	Guest Keen & Nettlefolds (GKN)	Guest Keen & Nettlefolds (GKN)	Guest Keen & Nettlefolds (GKN) (GKN.L)
Harrods	Harrods	Marks & Spencer	Marks & Spencer (MKS.L)
Hawker Siddeley	Hawker Siddeley	Hawker Siddeley	Reckitt Benckiser (RB.L)
Imperial Chemical Industries	Imperial Chemical Industries	Imperial Chemical Industries	3i (III.L)
Imperial Tobacco	Imperial Tobacco (IMT.L)	Imperial Tobacco	Royal & Sun Alliance (RSA.L)
International Tea Co Stores	Morris Motors name change to British Motor Corp	Lucas Industries	BAE Systems (name change) (BAES.L)
London Brick	London Brick	London Brick	ITV (ITV.L)
Murex	Murex	Beecham	Logica (LOG.L)
Patons & Baldwins	Patons & Baldwins	Glaxo Group	GlaxoSmithKline (GSK.L)
Pinchin Johnson & Associates	Pinchin Johnson & Associates	British Oxygen	Wolseley (WOS.L)
Rolls-Royce	Rolls-Royce (RR.L)	British Petroleum	BP Amoco (BP.L)
Tate & Lyle	Tate & Lyle	Tate & Lyle	Tate & Lyle (TATE.L)
Turner & Newall	Turner & Newall	Turner & Newall	Invensys (ISYS.L)
United Steel	Tube Investments	Tube Investments	Royal Bank of Scotland (RBS.L)
Vickers	Vickers	Vickers	BG (BG.L)
Watney Combe & Reid	Watney Combe & Reid	Allied Breweries	Ladbrokes (renaming) (LAD.L)
Woolworth (FW)	Woolworth (FW)	Grand Metropolitan Hotels	National Grid (NG.L)

Source: FT & Datastream/

… Cilit Bang and SMS

For this we use the FT30 index. This was originally launched in 1931 and the difference in constituents between then and 1952 was a change in 8 stocks. Of the 30 stocks that were in the index in 1952, 13 had been replaced by the time of the Silver Jubilee in 1977. Today, only two of the original 30 or those from 1952 are still in the index. They are GKN (Guest Keen & Nettlefolds) and Tate & Lyle. Imperial Tobacco and Rolls Royce from the original list are still in the FTSE 100 but left the FT30 over this period due to being acquired and poor performance, respectively.

More broadly the evolution of the index constituents over the last 60 years is a vignette of the changes in the UK economy. Manufacturing companies have four slots now compared to over half in 1952. Intellectual property and services were a much smaller parts of the index back then. The global nature of the UK market today is also illustrated by the evolution of the index. However, compared to the All Share, where commodities are c25%, the FT30 is underweight, with only one stock of the 30. Despite this, 60% of the FT30 revenues are international compared to c70% for the broader market.

Strategy outlook

A long-term investor in 1952 has been well served by an investment in equities. Over the last 35 years since the Silver Jubilee, equity returns have been more than double bond returns. With performance and valuation measures (Figure 27) taking us back to the early 50s, the question is are we about to repeat the mid-50s to mid-60s return profile for equities?

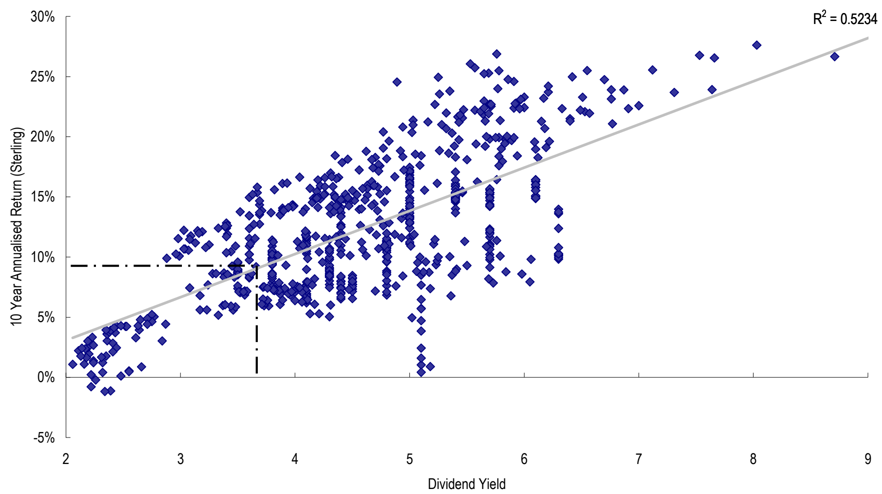
Figure 27. 1952 vs 2012

	1952	2012
PE	4.5x	10.2x
Bond Yield	4.20%	1.70%
DYR	1.4	2.1
Previous 5 yr returns from equities	-7%	1%

Source: Citi Investment Research and Analysis, Global Financial Data and DataStream

Much is in place for the next decade to be a better one for equities. Figure 28 shows the returns generated over the last 60 years from the starting point of valuation. The current DY suggests the outlook for the next decade is one of better returns than we have generated over the last decade. We may well have equity investors waving flags and celebrating the Platinum Jubilee.

Figure 28. Annualised 10 yr Returns 1952-2012



Source: Citi Investment Research and Analysis, Global Financial Data and DataStream

Enjoy those cucumber sandwiches.

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Market Outlook & Citi Research

The Point — Top Calls

Europe ex-UK

Auto industry overview — Has the Penny Dropped?

Harald C Hendrikse +44-20-7986-3460

EUROPE | AUTO MANUFACTURERS

Setting the scene for the auto sector for the rest of FY12: 1) Demand likely remains challenging globally; 2) Financing conditions remain stable, but CDS levels are creeping up; 3) Forecasts have likely peaked - Euro weakness will support German OEM earnings, but China is the risk; and 4) Conclusion - valuations are low, but without earnings momentum, this does not matter. VW prefs are on our Most Preferred list in Europe.

Mining Capex — How Much Could Capex & Earnings Be Cut?

Natalia Mamaeva +44-20-7986-4077

EUROPE | ENGINEERING

We turned cautious on mining capex in March, and we believe mining capex supplier underperformance can continue. Our Metals and Mining team have estimated the magnitude of potential capex cuts that each mining company needs to sustain dividends under a long-term price scenario and we have modelled the impact on group EPS of mining equipment suppliers if a -18% capex cut scenario materialises. Implied group EPS cuts would range between 0%-23% (depending on the company). We also lower our target price on FLSmidth to DKr350 (from DKr400) and adjust our forecasts for the Ludowici acquisition.

German Power Market — Overcapacity and Reregulation will weigh further on RWE & EON

Sofia Savvantidou +44-20-7986-3932

EUROPE | ELECTRIC UTILITIES

Structural German baseload overcapacity should persist throughout the decade inflated by subdued demand. At least 10GW of out-of-the-money capacity can come off line within the next couple of years but “cold reserve” would rise to offset the closures & other considerations will likely restrict such closures to less than consensus expectations. Only further intervention can deliver the results that the German policymakers want. Adverse implications for EON and RWE and we lower our price targets to €14.50 for EON and to €27 for RWE.

ABB Ltd (ABBN.VX) — Time to Transform

Mark Fielding +44-20-7986-4018

SWITZERLAND | ENGINEERING | BUY

ABB is our top large cap pick in the sector and is included in the "Citi Focus List Europe". In this report we highlight three key positives that support our Buy case: (1) Significant upside risk to forecasts driven by both short and long cycle trading - we are already 7% ahead of 2013E consensus; (2) Financial metrics show ABB remains one of the "quality" names in our coverage; and (3) The balance sheet strength remains supportive. This is combined with a highly attractive valuation in our opinion on a 20% peer group discount on EV/EBITA and at the low end of its historic valuation ranges.

UK

Barclays PLC (BARC.L) — The Pain in Spain

Andrew Coombs +44-20-7986-4053

UNITED KINGDOM | BANKS | BUY

Concerns surrounding Barclays' peripheral exposure, including Spain, are overdone, in our view. We believe Barclays is well positioned to benefit from the wider withdrawal of FICC competition in the medium to long term, offers the potential for additional 'non-performance' cost savings, should be a beneficiary of benign asset quality, and has an attractive valuation (0.5x 2012E P/TB). We reiterate our Buy rating, target 325p.

GlaxoSmithKline PLC (GSK.L) — £2.3bn Skin Cancer Opportunity for GSK. Reassuring Signs for Rest of Pipeline. Increasing Target Price to £16.10. BUY

Andrew S Baum +44-20-7986-4498

UNITED KINGDOM | DRUGS | BUY

We reiterate our Buy rating following recent underperformance after a weak 1Q. Our 2015-18E EPS are 5-12% above consensus. Our new £16.10 price target is a 15% premium to our sector target multiple to reflect GSK's premium 8.4% 2013-18E EPS CAGR (sector 5.5%) and 2013E DY of 5.4% (sector 5.1%). Our DCF-derived intrinsic value is £18.67. We believe the market is under-appreciating: (i) late-stage pipeline, with value-added drugs for melanoma and NSCLC and HIV; (ii) consensus 2017E tax rates of c.25% look 200-250 basis points too high; and (iii) potential multiple expansion associated with any spin-off of ViiV.

British Sky Broadcasting Group PLC (BSY.L) — Updating the Buy Thesis & Upgrading TP to 850p

Thomas A Singlehurst +44-20-7986-4051

UNITED KINGDOM | MEDIA - GENERAL | BUY

In this report we revisit the buy thesis on BSkyB. The main change is an upgrade to our PT to 850p from 750p. This is driven by a reassessment of the risk profile of the group in the aftermath of solid 3Q results and an (encouraging) update on the FAPL auction structure and, therefore, a lowering of the discount rate. We think risk/reward tilts positively at BSkyB and rate the group Buy.

GlaxoSmithKline PLC (GSK.L) — GSK skin cancer combination could get approval 2 years earlier than modeled. Reiterate BUY

Andrew S Baum +44-20-7986-4498

UNITED KINGDOM | DRUGS | BUY

GSK is in discussion with US and EU regulators over potentially attaining approval for their dabrafenib (BRAFi) + MEK (MEKi) combination as early as H1 2013. Our model anticipates approval in late 2014/ 2015. Earlier approval would bolster revenue outlook The median 7.4 month PFS for the combination is less than hoped. However, we note that the PFS of the high-dose arms taken into phase III likely compares favorably with Zelboraf. GSK will disclose further data, which could support an application for accelerated approval.

Report of the Week

Biz Services 2011 Annual Report Review

Ed Steele +44-20-7986-2154

Trawling the Accounts

Checking the fine print — December year-end companies have recently published 2011 annual reports. These offer an array of additional disclosures, giving insight into the quality of previously reported earnings and balance sheets. In addition, annual reports can help investors assess how each company's accounting policies compare with those of its peers. We have reviewed them so you don't have to. We focus on five areas: provisions usage, bad debtors, goodwill impairment calculations, pension assumptions and discretionary executive pay metrics.

Provisions — BV, Berendsen, Capita, Rentokil and Serco all saw 2011 PBT (adj) helped 4%+ relative to cashflow by using or releasing more provisions than expensed.

Bad debtors — SGS expensed SFr7m for bad debtors in 2011 against SFr21-22m in the previous two years, helping reported EBITA margins by c30bp. BV and Capita saw their bad debtor balance sheet provisions rising as a percentage of gross receivables, partly from acquisitions. Amadeus continues to have the highest level of bad debtor provisions in our coverage universe, highlighting its exposure to troubled airlines as a key investment risk.

Goodwill Impairments — The most optimistic acquisition assumptions are made by Serco & Intertek (high long-term growth) and G4S & Bunzl (low discount rates).

Pensions — Of the large defined benefit pension shares, Atkins and De La Rue remain overweight equity exposure and so benefit from high expected rates of asset return in their earnings. They are, therefore, most vulnerable to forthcoming IAS 19 accounting standard changes, and we calculate potential downgrades of c10% and 9-11% of PBTA (adj) respectively. Serco is the next most exposed at c5%, partly because it exercises the most discretion on its asset return assumptions.

Executive Remuneration — Capita, Intertek and Serco have gently reduced discretionary remuneration targets. Serco has tilted away from TSR and towards EPS, while Berendsen now emphasizes sales growth over ROIC. SGS 2014 EPS targets are kinder than 2011's with a band (SFr115-140) rather than a bullet payout.

Wider market primer — This Business Services sector report has drawn on and should be read in conjunction with the recent wider market review by Citi's European Accounting and Valuation team: The Standards: Annual Report Review - An Investors' Guide to Reading Annual Reports.

International Corner

Each week we use this section to highlight the key news, views, analysis and recommendations from our colleagues around the world.

Markus Rosgen
Asia Strategist

It's Not All Down to Europe

Are you sure it's all due to the European crisis? It has become consensus – and too simplistic – to blame Europe for all the current Asian market woes.

Asian central banks have been slowing the expansion of their balance sheets since June 2011, well before the latest elections in France, Greece and Germany. Declining capital accounts and trade surpluses are to blame, as is the US$'s appreciation since May 2011 – again well before the latest market rout.

Another issue, specific to Asia, is the high 2012 earnings growth forecast of 16.3% compared with actual 2011 Asia ex EPS growth of -1.7%. Global nominal GDP and top-line growth in 2012E will be lower than in 2011. Significant cost savings would therefore be needed to achieve the earnings forecast, which is hard to see. Commodity costs are off by 2.4%, but the decline is not enough to offset the rise in labour costs and slower top-line growth.

The heaviest EPS revisions in Asia ex have always been in the months of August and September. We doubt it will be any different this year. August and September are also the only two months when market returns on average have been negative.

It's important to analyze how much of the fear of worse economic news is in the price. At 1.5x P/BV, Asia ex is back to the levels of October 2011. Also, the markets have traded higher than 1.5x P/BV for 69% of the last 37 years. In other words, lots of bad news is in the price.

From an earnings perspective, the implied earnings growth rate at 0.6% to perpetuity is close to the lows seen in 2003 and 2008. Again, much of the bad news is in the price.

Shares with risk attributes are close to October 2011 levels. Tracking the performance of risk vs. quality since 1995, risk is underperforming more than in October 2011 and 2008, and fared worse only in 2001 and 1997/8.

Finally, sentiment is now weaker than in October 2011. Asian shares have priced in lots of bad news. The key now is not to get over-bearish but start looking for opportunities to add to positions. The summer will provide plenty of opportunities.

A primary driver of a bull or bear market is what is happening on the asset side of central banks' balance sheets. When the asset side expands, so do multiples; when it decelerates, so do multiples. Asian balance sheets have been decelerating and hence P/BV multiples have been contracting. We are currently trading on 1.5x P/BV.

The current EPS growth forecast for 2012 is +16.3 %, higher than the actual 2011 earnings growth of -2%. One possible reason for the optimistic 2012 number is analysts (post the 2011 results) reflecting 2011 EPS numbers but leaving 2012E EPS unchanged. Hence the EPS growth number jumps (see Figure 8). The end-result is that consensus is at 16.3% EPS growth and we have yet to see the first signs of downward revisions. There will be, and here is why.

In 2011 the world enjoyed 6.7% nominal GDP growth and the region generated EPS growth of -1.6%. The nominal GDP growth forecast for 2012 is 6% and EPS growth 16.3%. Hmm! Asia would need significant productivity improvement in 2012 to get to 16.3%.

In the last few weeks we have already seen analyst revisions coming off a tad. Into 4Q we saw the number of earnings downgrades falling substantially and hence the revisions ratio stopped falling and began to turn around. The busiest period has still to come.

Not surprisingly, the two months of negative returns are also those with the sharpest downward earnings revisions, notably August and September. No, contrary to conventional wisdom, the worst month for equity markets is not October. The worst month is also the time the market has historically faced the biggest pressure on earnings revisions.

It is difficult to predict the outcome of the European crisis. Greece could stay as an EU member and the region muddles through, or Greece could be the first to leave, and before you know it, each country has its own currency again. During events of the past few years, investors have tended to model in worst-case outcomes. Understandable, but as always, one should look at how much bad news is already embedded in equity prices.

In terms of P/BV, at 1.5x the region is back to the October 2011 level. Historically when the region has traded at 1.5x P/BV, the return pay-off has proven to be quite rewarding, with the region showing a positive return in 70% of the cases.

Another way to gauge how cheap Asian markets are, is to look at the implied earnings growth rate to perpetuity. At present it is down to just 0.6%, not quite back to the October lows when the implied earnings growth rate momentarily dipped into negative territory.

The final gauge to understand how fast sentiment has turned is to look at the performance of stocks with risk attributes (i.e. beta and volatility) vs. their own one-year moving average. There has been a marked swing in the last few weeks, to the extent that the performance of risk has swung back close to October 2011 lows. Yes, the performance of risk can get worse, as the data for 2008, 2001 and 1997/8 show, but for the vast majority of the time more data points are above the line rather than below.

The performance of risk vs. quality (clean B/S) is even starker. Risk is underperforming more than in October 2011, 2008 and 2003 during SARS, and only 2001 and 1997/8 have seen worse data points. If there is more downside to the markets, it is increasingly likely that risk may not do poorly as investors could sell defensive stocks with high quality attributes that have outperformed substantially and are now expensive.

Please contact us if you would like more on the above article. You can also access all Citi Investment Research and Analysis from around the world through our Global Equities Online internet site. Please contact us for further details

Market Outlook

The Euro Area sovereign debt crisis is back in the spotlight. The soothing effect of the 3-year LTROs did not last long. Political and economic risks have risen with Spain, France and the Netherlands in the lead roles. The recently signed Fiscal Compact is under attack on several fronts. Global financial markets are once again focused on Europe. Elections in France and Greece, political events in the Netherlands and a referendum in Ireland are setting the agenda for financial markets. Already, European markets have reacted strongly to these developments. European equities have sold off, 7-8% lower than YTD highs, with the peripheral markets suffering even worse falls.

GDP	2011	2012E	2013E
Euro zone	1.5	-0.6	-0.7
UK	0.6	-0.2	0.5
Global	3.0	2.7	2.9
US	1.7	2.1	2.1
Japan	-0.7	2.6	1.5
CPI	**2011**	**2012E**	**2013E**
Euro zone	2.7	2.5	1.8
UK	4.5	2.9	1.8
Global	3.7	3.0	2.9
US	2.5	1.9	1.7
Japan	-0.3	0.4	0.0
Interest Rates	**Now**	**3Q12E**	**3Q13E**
ECB	1.00	0.50	0.50
UK Base	0.50	0.50	0.50
US Fed Funds	0.25	0.25	0.25
Japan Call	0.10	0.10	0.10
10Yr Yield	**Now**	**3Q12E**	**3Q13E**
Euro zone	1.21	1.40	1.75
UK	1.57	1.80	2.25
US	1.55	1.90	3.05
Japan	0.84	0.95	1.30
Ex Rates	**Now**	**3Q12E**	**3Q13E**
US$/€	1.24	1.23	1.27
US$/£	1.54	1.58	1.61
€/£	1.25	1.28	1.27
Y/US$	78	80	82
End Year Targets	**Now**	**End-12E**	**Return**
Stoxx	239	285	19.2
FTSE 100	5306	6200	16.8

Source: Reuters and CIRA forecasts

Macro – mind the gap

Our economists have recently edged up their 2012 global growth forecasts, for the third consecutive month. They now expect that global growth will slow from 3% in 2011 to 2.7% in 2012. They also recently upgraded GDP growth forecasts for the Eurozone, though they still expect it to be in recession this year and the next. Moreover, they expect Spain to enter a Troika program this year, most likely focused on recapitalising and restructuring the banks. And they expect Portugal and Ireland to need a second bailout, while Italy's fiscal and economic outlook remains weak. Plenty of challenges ahead.

Flat earnings

The pace of earnings downgrades for European corporates has eased, and the latest data suggest that consensus is mildly upgrading year one forecasts. Bottom up, Citi analysts expect earnings to grow by 9% this year. Top down we remain less positive and expect earnings to remain at 2011 levels, given our belief that the economic backdrop will continue to pose challenges for some companies.

Valuations

European equity valuations look reasonably to very attractive to us. On 12m fwd P/E, the market is now trading back in double-digits, but remains significantly below its long-term average. On a price/book basis and excluding the financials, European equities are trading at post 1980 average levels.

Themes

We retain our structural preference for growth and quality. We continue to back defensive growth and Europe's World Champions. We think that defensive growth will continue to benefit from reduced leverage-driven growth compared with before 2008-09. Our World Champions theme asks our sector teams for European companies that are 'global leaders' in their industries. This skews exposure towards higher international growth and away from weaker domestic growth. Other key themes include various income strategies and de-equitisation.

Sector Strategy

Our sector Overweights have an international and strong balance sheet bias. Our sector Underweights have a domestic and more levered tilt.

Figure 29. European Sector Strategy

Overweight	Neutral	Underweight
Autos	Banks	Construction
Basic Resources	Financial Services	Media
Chemicals	Industrial G&S	Real Estate
Food & Bev	Oil & Gas	Telecoms
Health Care	Retail	Travel & Leisure
Insurance	Technology	Utilities
Personal & Household Goods		

Source: Citi Investment Research and Analysis

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Valuation Tables

Figure 30. Pan-European Sector Weightings & Returns

As at Close 29 May 12 Sector (No of Stocks)	Mkt Cap (Euros m)	% of Stoxx	Return Relative to Stoxx 1m	3m	12m	Ytd	Absolute Return 1m	3m	12m	Ytd
Oil & Gas (32)	484,892	9.9	-1	-5	8	-7	-6	-11	-2	-5
Chemicals (23)	244,097	5.0	0	3	8	9	-5	-3	-2	11
Basic Resources (31)	225,047	4.6	-8	-10	-18	-6	-12	-16	-25	-4
Construction & Materials (24)	112,534	2.3	0	-5	-10	0	-5	-11	-19	2
Industrial G&S (98)	500,106	10.2	0	1	0	6	-5	-5	-10	8
Automobiles & Parts (15)	123,003	2.5	-2	-2	0	17	-7	-8	-10	19
Food & Beverage (29)	450,114	9.2	4	10	24	6	-1	4	12	8
Personal & H'hold Goods (30)	317,127	6.5	3	8	24	10	-2	1	12	12
Health Care (36)	572,742	11.7	5	10	20	1	0	4	8	3
Retail (25)	160,370	3.3	3	3	-1	-5	-2	-3	-10	-3
Media (28)	114,343	2.3	2	3	4	0	-3	-3	-6	2
Travel & Leisure (22)	66,634	1.4	3	10	10	9	-2	3	-1	11
Telecommunications (19)	270,613	5.5	3	1	1	-9	-2	-5	-9	-7
Utilities (27)	227,300	4.6	1	0	-9	-6	-4	-6	-18	-4
Banks (48)	502,675	10.3	-6	-14	-28	-7	-11	-19	-35	-6
Insurance (32)	243,599	5.0	-3	-4	-7	1	-8	-10	-16	4
Real Estate (24)	64,245	1.3	5	12	2	9	0	5	-8	11
Financial Services (30)	63,843	1.3	-3	-3	-11	1	-8	-9	-20	3
Technology (27)	146,230	3.0	0	-2	-5	1	-5	-8	-14	3
Stoxx - Pan Europe (600)	4,889,514	100.0	—	—	—	—	-5	-6	-10	2
Pan Euro - Large Cap	3,994,148	81.7	0	0	1	-1	-5	-6	-9	1
Pan Euro - Mid Cap	625,939	12.8	-1	0	-2	4	-6	-6	-12	6
Pan Euro - Small Cap	269,426	5.5	-1	0	-3	4	-6	-6	-12	7
Stoxx ex UK (422)	3,125,810	63.9	—	—	—	—	-5	-8	-15	1
EuroStoxx - Eurozone (304)	2,075,216	42.4	—	—	—	—	-6	-10	-19	-1

Source: Citi Investment Research and Analysis & DataStream

Figure 31. Pan-European Sector Relative Ratings

As at Close 29 May 12 Sector	P/E Relative to Stoxx 2010	2011E	2012E	2013E	Yield Relative to Stoxx 2010	2011E	2012E	2013E
Oil & Gas	87	82	74	78	91	103	104	102
Chemicals	119	105	115	117	69	74	72	71
Basic Resources	78	70	81	74	71	74	79	82
Construction & Materials	113	102	111	110	103	101	96	97
Industrial G&S	122	118	117	118	79	83	80	80
Automobiles & Parts	90	65	70	67	72	90	97	109
Food & Beverage	167	157	155	159	65	70	74	76
Personal & H'hold Goods	161	155	147	148	65	69	71	74
Health Care	108	108	114	118	86	90	91	92
Retail	113	116	118	123	96	91	91	93
Media	104	97	102	108	112	124	109	107
Travel & Leisure	144	136	150	135	75	73	70	74
Telecommunications	73	79	89	97	196	206	202	179
Utilities	73	94	97	106	192	163	152	143
Banks	79	84	79	69	131	104	108	122
Insurance	70	82	63	67	131	133	136	133
Real Estate	148	147	160	171	119	122	117	112
Financial Services	98	110	100	94	127	127	129	125
Technology	120	122	172	154	69	64	63	51
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	94	95	97	98	103	104	104	103
Pan Euro - Mid Cap	113	122	120	113	86	84	82	84
Pan Euro - Small Cap	343	143	118	111	90	86	83	86
Stoxx ex UK	98	100	101	100	110	105	102	101
EuroStoxx - Eurozone	89	92	94	93	125	115	109	107

Source: Citi Investment Research and Analysis & DataStream

Figure 32. Pan-European Sector Growth

As at Close 29 May 12	Earnings Growth %			Net Dividend Growth %		
Sector	2011E	2012E	2013E	2011E	2012E	2013E
Oil & Gas	6.5	22.7	8.0	18.3	9.4	6.4
Chemicals	14.3	1.6	10.6	12.2	5.9	6.4
Basic Resources	11.6	-4.5	23.8	9.3	15.3	11.9
Construction & Materials	12.7	0.8	14.6	2.6	3.6	9.1
Industrial G&S	4.0	11.4	12.0	9.8	4.0	9.1
Automobiles & Parts	39.5	2.8	17.1	31.4	16.2	22.3
Food & Beverage	7.6	12.1	10.3	13.0	14.4	10.9
Personal & H'hold Goods	4.9	16.8	12.6	11.1	11.1	13.3
Health Care	1.1	4.3	8.8	8.5	10.2	8.9
Retail	-1.5	7.9	9.1	-0.7	8.3	9.6
Media	8.6	5.0	6.2	15.4	-5.1	6.4
Travel & Leisure	6.9	-0.3	25.9	1.7	4.2	14.4
Telecommunications	-7.7	-1.3	3.8	9.8	5.8	-3.6
Utilities	-22.2	7.8	3.5	-11.2	1.0	2.1
Banks	-4.7	17.7	29.1	-16.7	12.3	22.0
Insurance	-13.6	42.6	6.5	5.9	10.7	6.2
Real Estate	2.1	1.6	5.5	7.0	3.8	3.4
Financial Services	-10.2	21.1	20.3	5.0	9.7	5.0
Technology	-0.3	-21.5	26.4	-2.7	6.3	-12.2
Stoxx - Pan Europe	1.0	10.5	13.0	4.7	8.2	8.2
Pan Euro - Large Cap	-0.5	9.2	11.8	5.3	8.7	7.7
Pan Euro - Mid Cap	-6.6	13.1	19.4	1.7	6.2	10.8
Pan Euro - Small Cap	141.9	34.3	19.9	-0.3	4.4	12.5
Stoxx ex UK	-1.6	9.5	14.1	-0.4	5.0	7.0
EuroStoxx - Eurozone	-2.8	9.0	13.9	-3.9	3.4	5.7

Source: Citi Investment Research and Analysis & DataStream

Figure 33. Pan-European Sector Ratings

As at Close 29 May 12	Price/Earnings				Net Dividend Yield			
Sector	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Oil & Gas	9.9	9.3	7.6	7.0	3.58	4.23	4.63	4.93
Chemicals	13.7	12.0	11.8	10.6	2.70	3.03	3.21	3.42
Basic Resources	8.9	8.0	8.3	6.7	2.78	3.04	3.51	3.93
Construction & Materials	13.0	11.5	11.4	10.0	4.03	4.13	4.28	4.67
Industrial G&S	14.0	13.4	12.0	10.8	3.11	3.41	3.55	3.87
Automobiles & Parts	10.3	7.4	7.2	6.1	2.81	3.70	4.30	5.26
Food & Beverage	19.2	17.8	15.9	14.4	2.55	2.88	3.29	3.65
Personal & H'hold Goods	18.5	17.6	15.1	13.4	2.54	2.83	3.14	3.56
Health Care	12.3	12.2	11.7	10.7	3.39	3.68	4.06	4.42
Retail	12.9	13.1	12.1	11.1	3.78	3.75	4.07	4.46
Media	11.9	11.0	10.4	9.8	4.41	5.09	4.83	5.14
Travel & Leisure	16.4	15.4	15.4	12.2	2.94	2.99	3.12	3.57
Telecommunications	8.3	9.0	9.1	8.8	7.71	8.47	8.96	8.64
Utilities	8.3	10.7	9.9	9.6	7.53	6.69	6.75	6.89
Banks	9.1	9.6	8.1	6.3	5.13	4.28	4.80	5.86
Insurance	8.0	9.2	6.5	6.1	5.15	5.45	6.03	6.41
Real Estate	17.0	16.6	16.4	15.5	4.68	5.01	5.20	5.38
Financial Services	11.2	12.4	10.3	8.5	4.98	5.23	5.73	6.02
Technology	13.8	13.8	17.6	13.9	2.72	2.65	2.82	2.47
Stoxx - Pan Europe	11.5	11.3	10.3	9.1	3.93	4.11	4.45	4.81
Pan Euro - Large Cap	10.7	10.8	9.9	8.9	4.04	4.25	4.62	4.98
Pan Euro - Mid Cap	13.0	13.9	12.3	10.3	3.37	3.43	3.65	4.04
Pan Euro - Small Cap	39.3	16.3	12.1	10.1	3.54	3.53	3.69	4.15
Stoxx ex UK	11.2	11.4	10.4	9.1	4.34	4.32	4.54	4.86
EuroStoxx - Eurozone	10.2	10.5	9.6	8.4	4.90	4.71	4.87	5.14

Source: Citi Investment Research and Analysis & DataStream

Figure 34. 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 (10)	20,472	0.4	-5	-10	-26	-3	-10	-15	-33	-1
Belgium (16)	77,166	1.6	4	10	13	12	-1	4	2	14
Denmark (16)	91,971	1.9	3	7	12	14	-2	0	1	16
Finland (20)	67,230	1.4	-4	-7	-20	-4	-9	-13	-27	-2
France (86)	695,602	14.2	1	-2	-9	-1	-4	-8	-17	1
Germany (63)	620,484	12.7	-1	0	0	7	-6	-6	-10	9
Greece (3)	4,590	0.1	-20	-25	-61	-23	-24	-30	-65	-22
Ireland (8)	33,859	0.7	4	10	30	4	-1	4	18	6
Italy (32)	166,671	3.4	-5	-12	-25	-12	-10	-17	-32	-11
Netherlands (31)	196,028	4.0	2	2	0	-2	-3	-4	-10	0
Norway (15)	75,491	1.5	0	-4	7	2	-5	-10	-3	4
Portugal (5)	11,996	0.2	-5	-9	-28	-17	-10	-14	-34	-15
Spain (30)	181,116	3.7	-7	-20	-28	-26	-11	-24	-35	-24
Sweden (40)	230,295	4.7	0	-2	-2	3	-5	-8	-12	5
Switzerland (47)	652,836	13.4	2	6	5	2	-3	-1	-5	4
UK (178)	1,763,704	36.1	1	4	13	1	-4	-3	2	3
Stoxx - Pan Europe	4,889,514	100								

Source: Citi Investment Research and Analysis & DataStream. *Note: Country returns use MSCI indices.

Figure 35. Pan-European Country Relative Ratings

As at Close 29 May 12 Country	Price/Earnings 2010	2011E	2012E	2013E	Net Dividend Yield 2010	2011E	2012E	2013E
Austria	83	183	101	82	107	80	83	99
Belgium	122	125	124	125	82	82	92	91
Denmark	176	197	167	148	29	40	46	57
Finland	82	113	171	156	169	138	127	95
France	85	91	97	95	120	107	103	106
Germany	91	97	93	94	96	94	92	92
Greece	40	-	64	55	233	131	137	154
Ireland	-	1047	255	185	47	45	43	42
Italy	71	79	73	74	153	123	120	121
Netherlands	91	94	93	92	85	90	91	86
Norway	110	98	94	93	124	123	110	117
Portugal	72	94	87	88	259	193	140	142
Spain	54	66	80	79	265	247	220	193
Sweden	122	107	116	122	92	97	98	96
Switzerland	117	122	121	118	82	86	87	88
UK	104	100	98	100	82	91	96	98
EuroStoxx - Eurozone	89	92	94	93	125	115	109	107
Stoxx ex UK - Europe ex UK	98	100	101	100	110	105	102	101
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Investment Research and Analysis & DataStream

Figure 36. Pan-European Country Growth

As at Close 29 May 12	Earnings Growth %			Dividend Growth %		
Country	2011E	2012E	2013E	2011E	2012E	2013E
Austria	-54.1	101.4	38.3	-21.4	12.4	29.1
Belgium	-1.8	11.4	12.4	4.4	21.9	6.6
Denmark	-9.9	30.4	27.1	46.5	24.6	32.3
Finland	-26.4	-27.2	24.5	-14.8	-0.1	-19.1
France	-4.6	3.1	15.2	-6.6	3.3	11.5
Germany	-4.5	15.2	10.9	2.6	5.4	8.0
Greece	-	-	32.6	-40.9	12.9	22.1
Ireland	-	354.4	55.6	1.8	3.1	5.7
Italy	-8.5	19.0	12.0	-15.6	4.9	9.7
Netherlands	-2.1	12.3	13.2	10.7	10.2	2.2
Norway	13.3	16.1	13.9	3.1	-2.8	14.8
Portugal	-22.7	18.8	12.1	-22.3	-21.5	10.1
Spain	-18.0	-8.3	14.7	-2.3	-3.5	-5.4
Sweden	14.6	1.9	8.0	9.5	9.5	6.5
Switzerland	-2.9	11.9	15.7	9.8	10.3	9.2
UK	5.9	12.3	11.2	16.7	14.7	10.5
EuroStoxx - Eurozone	-2.8	9.0	13.9	-3.9	3.4	5.7
Stoxx ex UK - Europe ex UK	-1.6	9.5	14.1	-0.4	5.0	7.0
Stoxx - Pan Europe	1.0	10.5	13.0	4.7	8.2	8.2

Source: Citi Investment Research and Analysis & DataStream. *Note: Country returns use MSCI index

Figure 37. Pan-European Country Ratings

As at Close 29 May 12	Price/Earnings				Net Dividend Yield			
Country	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Austria	9.5	20.8	10.3	7.5	4.19	3.30	3.71	4.79
Belgium	13.9	14.2	12.7	11.3	3.22	3.36	4.09	4.36
Denmark	20.1	22.3	17.1	13.5	1.13	1.66	2.06	2.73
Finland	9.4	12.8	17.6	14.1	6.64	5.66	5.65	4.57
France	9.8	10.3	10.0	8.6	4.73	4.41	4.56	5.08
Germany	10.5	10.9	9.5	8.6	3.78	3.87	4.08	4.41
Greece	4.5	-	6.6	5.0	9.14	5.40	6.09	7.43
Ireland	-	118.7	26.1	16.8	1.83	1.87	1.92	2.03
Italy	8.2	8.9	7.5	6.7	6.00	5.07	5.32	5.83
Netherlands	10.4	10.7	9.5	8.4	3.34	3.69	4.07	4.16
Norway	12.6	11.1	9.6	8.4	4.89	5.04	4.90	5.63
Portugal	8.2	10.6	9.0	8.0	10.19	7.91	6.21	6.84
Spain	6.2	7.5	8.2	7.1	10.39	10.16	9.80	9.27
Sweden	13.9	12.2	11.9	11.0	3.63	3.97	4.35	4.63
Switzerland	13.4	13.9	12.4	10.7	3.21	3.52	3.88	4.24
UK	12.0	11.3	10.0	9.0	3.20	3.74	4.28	4.74
EuroStoxx - Eurozone	10.2	10.5	9.6	8.4	4.90	4.71	4.87	5.14
Stoxx ex UK - Europe ex UK	11.2	11.4	10.4	9.1	4.34	4.32	4.54	4.86
Stoxx - Pan Europe	11.5	11.3	10.3	9.1	3.93	4.11	4.45	4.81

Source: Citi Investment Research and Analysis & DataStream

Figure 38. UK Sector Weightings & Relative Returns

As at Close 29 May 2012	Mkt Cap £m	% of AllShare	% of Group	Relative return 1m	3m	12m	Qtd	Ytd
OIL & GAS (27)	284,800	17.2		-2	-6	1	-2	-9
Oil & Gas Producers (19)	272,533	16.5	96	-2	-6	1	-2	-9
Oil Equip, Serv and Distrib (7)	12,250	0.7	4	-7	-1	0	-5	8
Alternative Energy (1)	17	0.0	0	98	88	-	106	88
BASIC MATERIALS (40)	174,145	10.5		-9	-13	-23	-6	-7
Chemicals (7)	11,795	0.7	7	2	10	20	7	27
Forestry & Paper (1)	1,923	0.1	1	-4	-2	-4	-3	19
Industrial Metals (4)	1,996	0.1	1	-14	-26	-54	-17	-19
Mining (28)	158,431	9.6	91	-9	-14	-25	-6	-8
INDUSTRIALS (111)	145,614	8.8		1	4	10	3	10
Construction & Materials (11)	12,316	0.7	8	1	-1	-7	-1	-1
Aerospace (10)	34,016	2.1	23	3	8	18	6	10
General Industrials (6)	11,454	0.7	8	1	4	4	2	16
Electronic & Electrical Equip (12)	7,419	0.4	5	1	3	10	6	24
Industrial Engineering (12)	13,706	0.8	9	-1	0	9	4	6
Industrial Transportation (8)	2,005	0.1	1	4	5	-1	-1	9
Support Services (52)	64,699	3.9	44	1	4	10	2	10
CONSUMER GOODS (36)	231,266	14.0		2	5	20	3	5
Automobiles & Parts (2)	2,991	0.2	1	-3	-5	-5	0	6
Beverages (4)	68,243	4.1	30	1	5	24	5	8
Food Producers (12)	36,252	2.2	16	4	8	15	5	-2
Household Gds & Home Cons (11)	33,164	2.0	14	1	3	13	2	11
Leisure Goods (2)	140	0.0	0	-5	-6	-17	-6	-21
Personal Goods (3)	7,080	0.4	3	4	8	13	2	16
Tobacco (2)	83,396	5.0	36	1	4	23	2	2
HEALTH CARE (13)	126,283	7.6		6	6	10	6	-3
Health Care Equip & Services (4)	6,185	0.4	5	6	8	-1	4	0
Pharmaceuticals & Biotech (9)	120,098	7.3	95	6	6	11	6	-3
CONSUMER SERVICES (88)	156,444	9.5		3	6	-1	1	0
Food & Drug Retailers (6)	38,406	2.3	25	3	6	-14	1	-17
General Retailers (24)	25,510	1.5	16	2	5	0	-1	12
Media (26)	47,987	2.9	31	3	5	6	1	5
Travel & Leisure (32)	44,542	2.7	28	3	8	4	3	7
TELECOMMUNICATIONS (9)	107,758	6.5		7	8	15	5	-1
Fixed-Line Telecoms (7)	19,924	1.2	18	5	5	12	0	10
Mobile Telecoms (2)	87,834	5.3	82	8	9	16	6	-3
UTILITIES (8)	71,971	4.4		8	15	20	11	10
Electricity (2)	14,543	0.9	20	8	13	14	8	6
Gas, Water & Multi-Utilities (6)	57,427	3.5	80	8	15	21	12	11
TECHNOLOGY (29)	24,412	1.5		0	0	5	-4	1
Software & Computer Serv (18)	13,565	0.8	56	1	2	11	-2	7
Technology Hardware & Equip (11)	10,846	0.7	44	-2	-1	-3	-7	-5
TOTAL NON-FINANCIAL (361)	1,322,692	80.0		1	1	3	1	-1
FINANCIALS (251)	331,332	20.0		-2	-2	-11	-4	5
Banks (5)	160,922	9.7	49	-5	-6	-17	-7	4
Non-Life Insurance (10)	13,745	0.8	4	3	7	-6	5	9
Life Insurance (9)	48,062	2.9	15	-3	-2	-2	-5	5
Real Estate Investment Svs (23)	5,777	0.3	2	2	3	-7	0	3
REITS (17)	23,334	1.4	7	6	13	-5	7	12
Financial Services (27)	28,655	1.7	9	-4	-1	-15	-7	4
Equity Inv Instruments (160)	50,837	3.1	15	2	1	-3	0	3
FTSE ALL SHARE (612)	1,654,024	100.0		0	0	0	0	0
FTSE 100 (100)	1,396,679	84.4		0	0	0	0	-1
Mid 250 (250)	217,731	13.2		-1	1	-2	-1	7
Small Cap (262)	39,614	2.4		1	2	-2	0	8

Source: Citi Investment Research and Analysis & DataStream

Figure 39. UK Relative Ratings

	P/E Relative				Yield Relative			
As at Close 29 May 2012	2010	2011	2012E	2013E	2010	2011	2012E	2013E
OIL & GAS	88	84	74	78	87	95	96	95
Oil & Gas Producers	86	83	73	77	89	97	98	96
Oil Equip, Serv and Distrib	161	152	128	118	59	58	64	68
BASIC MATERIALS	77	71	83	76	74	71	75	77
Chemicals	182	155	151	149	60	54	54	52
Forestry & Paper	135	85	111	115	95	108	107	104
Industrial Metals	105	105	143	153	11	9	39	8
Mining	73	68	79	73	75	73	77	80
INDUSTRIALS	130	122	122	122	78	76	75	75
Construction & Materials	140	124	131	125	132	118	107	102
Aerospace	107	108	108	112	92	89	88	86
General Industrials	109	104	104	103	85	88	91	91
Electronic & Electrical Equip	179	140	135	133	43	44	45	46
Industrial Engineering	152	129	123	125	67	64	65	66
Industrial Transportation	88	95	102	104	129	109	105	103
Support Services	142	133	133	131	64	64	65	66
CONSUMER GOODS	153	149	147	146	88	84	83	86
Automobiles & Parts	93	95	88	85	75	104	121	133
Beverages	175	169	163	161	69	65	66	66
Food Producers	146	148	145	149	95	90	85	82
Household Gds & Home Cons	149	140	143	140	78	76	67	82
Personal Goods	250	218	199	187	39	43	48	51
Tobacco	140	138	138	139	108	104	105	106
HEALTH CARE	87	94	102	106	126	124	120	116
Health Care Equip & Services	115	126	131	130	49	45	47	47
Pharmaceuticals & Biotech	85	93	101	105	130	128	124	120
CONSUMER SERVICES	107	105	112	112	98	98	91	91
Food & Drug Retailers	96	96	101	106	127	117	110	107
General Retailers	99	104	108	108	101	92	89	90
Media	116	110	111	112	83	97	89	89
Travel & Leisure	113	108	128	122	88	84	80	81
TELECOMMUNICATIONS	92	103	111	117	141	166	174	167
Fixed-Line Telecoms	88	91	92	93	112	106	107	110
Mobile Telecoms	93	106	116	124	147	179	189	180
UTILITIES	117	129	131	138	140	126	123	118
Electricity	100	113	117	131	160	144	138	126
Gas, Water & Multi-Utilities	123	133	135	140	135	121	119	115
TECHNOLOGY	160	169	168	159	45	45	47	48
Software & Computer Serv	122	130	130	127	62	62	64	64
Technology Hardware & Equip	260	266	261	228	25	25	27	28
TOTAL NON-FINANCIAL	102	100	102	102	96	98	98	97
FINANCIALS	93	98	93	90	119	111	112	116
Banks	91	87	86	83	103	98	99	109
Non-Life Insurance	81	197	89	93	204	172	154	148
Life Insurance	78	85	84	84	144	135	141	137
Real Estate Investment Svs	238	222	224	208	55	51	52	53
REITS	180	191	206	214	113	105	101	97
Financial Services	98	127	110	92	140	128	130	125
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	98	97	98	99	102	103	103	103
Mid 250	119	136	115	110	87	82	76	78
Small Cap	80	94	88	86	92	77	76	79

Source: Citi Investment Research and Analysis & DataStream

Figure 40. UK Earnings Growth

As at Close 29 May 2012	Earnings Growth % 2011	2012E	2013E	Net Dividend Growth % 2011	2012E	2013E
OIL & GAS	12.1	21.5	4.5	25.9	8.8	7.4
Oil & Gas Producers	12.1	21.4	4.1	26.3	8.6	7.1
Oil Equip, Serv and Distrib	14.3	26.5	18.7	12.7	19.0	16.6
BASIC MATERIALS	16.0	-7.8	18.9	11.7	13.0	12.4
Chemicals	26.2	10.0	11.1	5.1	6.6	5.6
Forestry & Paper	69.9	-17.5	5.3	31.5	6.8	5.3
Industrial Metals	7.3	-21.3	2.8	-3.7	362.6	-77.8
Mining	15.5	-8.2	19.4	11.8	12.9	13.5
INDUSTRIALS	14.0	7.3	9.4	12.4	6.9	8.2
Construction & Materials	21.3	0.8	14.7	2.8	-2.4	3.4
Aerospace	6.7	7.3	5.3	10.7	6.8	6.3
General Industrials	12.5	7.1	10.5	19.8	10.7	9.8
Electronic & Electrical Equip	37.6	11.0	10.5	18.5	10.3	9.9
Industrial Engineering	26.5	12.2	7.4	9.4	10.6	10.1
Industrial Transportation	0.0	-1.0	8.2	-2.5	3.6	6.1
Support Services	14.0	7.4	11.2	16.7	8.3	10.3
CONSUMER GOODS	10.1	8.4	10.0	11.0	6.1	11.9
Automobiles & Parts	5.1	16.6	13.4	60.0	25.0	20.0
Beverages	11.7	10.7	11.2	8.6	8.5	9.0
Food Producers	6.3	8.7	7.1	8.5	1.9	5.8
Household Gds & Home Cons	13.7	5.1	11.8	11.7	-4.4	32.4
Personal Goods	23.3	17.2	16.5	28.4	18.4	17.4
Tobacco	8.9	7.2	9.2	11.2	8.4	9.8
HEALTH CARE	-1.2	-1.5	5.6	14.0	3.9	5.1
Health Care Equip & Services	-2.1	3.7	9.7	6.3	11.5	9.9
Pharmaceuticals & Biotech	-1.1	-1.7	5.4	14.1	3.8	5.0
CONSUMER SERVICES	9.5	0.1	9.1	14.3	0.8	8.6
Food & Drug Retailers	7.8	1.4	4.1	5.8	1.2	5.6
General Retailers	1.7	3.3	9.6	5.8	3.8	9.6
Media	13.0	6.9	8.3	33.9	-1.7	9.5
Travel & Leisure	12.5	-10.1	15.2	10.4	1.6	10.1
TELECOMMUNICATIONS	-4.4	-0.4	3.6	36.0	12.8	4.3
Fixed-Line Telecoms	4.6	5.6	8.4	9.6	8.3	12.0
Mobile Telecoms	-6.6	-2.0	2.2	40.4	13.4	3.3
UTILITIES	-2.1	5.1	4.2	4.1	5.2	3.7
Electricity	-5.1	3.6	-2.4	4.0	3.3	-0.8
Gas, Water & Multi-Utilities	-1.2	5.6	6.1	4.1	5.7	5.0
TECHNOLOGY	2.0	7.6	16.0	15.2	12.2	9.9
Software & Computer Serv	0.9	7.0	12.3	15.3	11.1	8.9
Technology Hardware & Equip	4.9	9.2	25.3	15.1	15.7	13.1
TOTAL NON-FINANCIAL	8.7	5.9	8.6	17.3	7.4	7.8
FINANCIALS	2.1	12.6	13.5	7.4	8.2	12.6
Banks	12.1	8.7	13.7	9.5	8.6	20.0
Non-Life Insurance	-55.6	136.6	4.6	-2.9	-3.4	4.4
Life Insurance	-1.4	8.3	8.7	8.4	12.4	5.6
Real Estate Investment Svs	15.3	6.0	18.0	5.9	9.6	12.5
REITS	1.6	-0.7	5.3	6.8	3.5	3.9
Financial Services	-17.3	23.4	30.8	5.1	9.4	4.6
FTSE ALL SHARE	7.4	7.1	9.5	15.3	7.6	8.8
FTSE 100	9.2	5.2	8.8	16.3	8.3	8.4
Mid 250	-6.3	26.4	15.1	8.3	0.3	12.0
Small Cap	-9.2	14.2	12.5	-3.8	7.4	12.9

Source: Citi Investment Research and Analysis & DataStream

Figure 41. UK Sector Ratings

As at Close 29 May 2012	Price/Earnings 2010	2011	2012E	2013E	Net Dividend Yield 2010	2011	2012E	2013E
OIL & GAS	9.9	8.8	7.3	7.0	3.02	3.80	4.13	4.44
Oil & Gas Producers	9.7	8.7	7.1	6.9	3.06	3.87	4.20	4.50
Oil Equip, Serv and Distrib	18.2	15.9	12.6	10.6	2.04	2.29	2.73	3.18
BASIC MATERIALS	8.7	7.5	8.1	6.8	2.55	2.84	3.21	3.61
Chemicals	20.5	16.3	14.8	13.3	2.06	2.17	2.31	2.44
Forestry & Paper	15.2	9.0	10.9	10.3	3.28	4.31	4.60	4.85
Industrial Metals	11.9	11.1	14.1	13.7	0.38	0.36	1.68	0.37
Mining	8.2	7.1	7.8	6.5	2.60	2.91	3.28	3.72
INDUSTRIALS	14.6	12.8	12.0	10.9	2.69	3.03	3.23	3.50
Construction & Materials	15.8	13.0	12.9	11.2	4.56	4.69	4.58	4.74
Aerospace	12.1	11.3	10.5	10.0	3.19	3.53	3.77	4.01
General Industrials	12.3	11.0	10.2	9.3	2.93	3.51	3.88	4.27
Electronic & Electrical Equip	20.2	14.7	13.2	11.9	1.48	1.76	1.94	2.13
Industrial Engineering	17.1	13.5	12.1	11.2	2.32	2.54	2.81	3.09
Industrial Transportation	9.9	9.9	10.0	9.3	4.47	4.36	4.52	4.79
Support Services	16.0	14.0	13.0	11.7	2.20	2.56	2.78	3.06
CONSUMER GOODS	17.2	15.6	14.4	13.1	3.03	3.37	3.57	4.00
Automobiles & Parts	10.5	10.0	8.6	7.6	2.59	4.14	5.18	6.22
Beverages	19.8	17.7	16.0	14.4	2.39	2.59	2.81	3.07
Food Producers	16.5	15.5	14.3	13.3	3.29	3.57	3.63	3.85
Household Gds & Home Cons	16.8	14.7	14.0	12.5	2.71	3.03	2.89	3.83
Personal Goods	28.2	22.8	19.5	16.7	1.34	1.72	2.04	2.39
Tobacco	15.8	14.5	13.6	12.4	3.74	4.16	4.51	4.95
HEALTH CARE	9.8	9.9	10.0	9.5	4.35	4.96	5.15	5.41
Health Care Equip & Services	13.0	13.3	12.8	11.7	1.69	1.80	2.01	2.21
Pharmaceuticals & Biotech	9.6	9.7	9.9	9.4	4.49	5.12	5.31	5.57
CONSUMER SERVICES	12.0	11.0	11.0	10.1	3.40	3.89	3.92	4.26
Food & Drug Retailers	10.8	10.0	9.9	9.5	4.40	4.65	4.71	4.98
General Retailers	11.1	10.9	10.6	9.7	3.48	3.69	3.83	4.20
Media	13.1	11.6	10.9	10.0	2.89	3.86	3.80	4.16
Travel & Leisure	12.7	11.3	12.6	10.9	3.05	3.37	3.42	3.77
TELECOMMUNICATIONS	10.3	10.8	10.9	10.5	4.87	6.62	7.46	7.78
Fixed-Line Telecoms	10.0	9.5	9.0	8.3	3.86	4.23	4.59	5.14
Mobile Telecoms	10.4	11.2	11.4	11.2	5.09	7.15	8.10	8.37
UTILITIES	13.2	13.5	12.9	12.3	4.83	5.03	5.28	5.48
Electricity	11.3	11.9	11.5	11.8	5.53	5.75	5.94	5.89
Gas, Water & Multi-Utilities	13.8	14.0	13.3	12.5	4.65	4.84	5.12	5.38
TECHNOLOGY	18.1	17.7	16.5	14.2	1.57	1.81	2.03	2.23
Software & Computer Serv	13.8	13.7	12.8	11.4	2.15	2.48	2.75	3.00
Technology Hardware & Equip	29.4	28.0	25.6	20.4	0.85	0.98	1.14	1.29
TOTAL NON-FINANCIAL	11.5	10.6	10.0	9.2	3.32	3.89	4.18	4.51
FINANCIALS	10.5	10.3	9.1	8.0	4.12	4.43	4.79	5.39
Banks	10.3	9.2	8.4	7.4	3.56	3.89	4.23	5.07
Non-Life Insurance	9.2	20.7	8.7	8.4	7.06	6.85	6.62	6.91
Life Insurance	8.8	8.9	8.2	7.6	4.97	5.39	6.06	6.40
Real Estate Investment Svs	26.9	23.3	22.0	18.6	1.91	2.02	2.21	2.49
REITS	20.3	20.0	20.2	19.2	3.92	4.19	4.33	4.50
Financial Services	11.0	13.3	10.8	8.3	4.85	5.10	5.58	5.84
FTSE ALL SHARE	11.3	10.5	9.8	9.0	3.46	3.99	4.29	4.66
FTSE 100	11.1	10.2	9.7	8.9	3.52	4.09	4.44	4.81
Mid 250	13.4	14.3	11.3	9.8	3.01	3.26	3.26	3.66
Small Cap	9.0	9.9	8.7	7.7	3.17	3.05	3.28	3.70

Source: Citi Investment Research and Analysis & DataStream

Figure 42. Companies Mentioned

Stock	RIC Code	Rating	Price	Currency	Stock	RIC Code	Rating	Price	Currency
3I INFRASTRUCTURE	3IN.L	2	1.24	GBP	INTERTEK GROUP	ITRK.L	1	26.47	GBP
ABB 'R'	ABBN.VX	1	15.34	CHF	Intl.Cons.Airl.Gp.(Cdi)	ICAG.L	1	1.41	GBP
ANHEUSER-BUSCH INBEV	ABI.BR	1	54.75	EUR	Invensys	ISYS.L	1	2.17	GBP
Adidas	ADSGn.DE	1	60.20	EUR	ITV	ITV.L	1	0.73	GBP
ANGLO AMERICAN	AAL.L	2	19.72	GBP	Ladbrokes	LAD.L	2	1.70	GBP
Asml Holding	ASML.AS	2	37.10	EUR	Land Securities	LAND.L		7.09	GBP
ATKINS (WS)	ATKW.L	2	6.68	GBP	Legrand	LEGD.PA		24.33	EUR
Atlas Copco 'A'	ATCOa.ST	3	146.30	SEK	Linde	LING.DE	1	124.20	EUR
Aviva	AV.L	2H	2.62	GBP	LLOYDS BANKING GROUP	LLOY.L	1	0.26	GBP
Axa	AXAF.PA	2H	9.08	EUR	Logica	LOG.L		1.08	GBP
BAE Systems	BAES.L	1	2.73	GBP	Ludowici Ltd	LDW.AX		10.84	AUD
Barclays	BARC.L	1	1.76	GBP	LVMH	LVMH.PA	1	119.40	EUR
BASF	BASFn.DE	2	56.30	EUR	Man Group	EMG.L	2H	0.73	GBP
BAT	BATS.L	1	30.15	GBP	Marks & Spencer	MKS.L	2	3.31	GBP
Bayer	BAYGn.DE	1	51.06	EUR	National Grid	NG.L	2	6.52	GBP
BERENDSEN	BRSN.L	3	4.73	GBP	Nordea Bank	NDA1V.HE	2	5.95	EUR
BG	BG.L	1	12.43	GBP	Philips Eltn.Koninklijke	PHG.AS	3	14.30	EUR
BG Group	BG.L	1	12.43	GBP	PPR	PRTP.PA	1	115.00	EUR
BHP Billiton	BLT.L	1	16.96	GBP	Prudential	PRU.L	1	6.78	GBP
BMW	BMWG.DE	1	62.14	EUR	Reckitt Benckiser	RB.L	1	34.44	GBP
BP	BP.L	2	3.95	GBP	Rentokil	RTO.L	3	0.75	GBP
BSkyB	BSY.L	1	6.88	GBP	Richemont	CFR.VX	1	56.25	CHF
BT GROUP	BT.L	1	2.06	GBP	Rio Tinto	RIO.L	1	28.30	GBP
Bunzl	BNZL.L	2	10.24	GBP	ROLLS-ROYCE HOLDINGS	RR.L	1	8.22	GBP
Bureau Veritas	BVI.PA	2	69.60	EUR	Royal Bank of Scotland	RBS.L	2H	0.20	GBP
Capita	CPI.L	1	6.18	GBP	RSA	RSA.L	2	0.99	GBP
Compass	CPG.L	1	6.36	GBP	RWE	RWEG.DE	3	29.70	EUR
Credit Suisse R	CSGN.VX	1	18.53	CHF	Saint Gobain	SGOB.PA	1	28.62	EUR
Daimler	DAIGn.DE	1	37.72	EUR	Saipem	SPMI.MI	1	31.40	EUR
Danone	DANO.PA	1	51.89	EUR	Sandvik	SAND.ST	1	90.50	SEK
De La Rue	DLAR.L	1	10.00	GBP	SAP	SAPG.DE	1	46.77	EUR
Deutsche Bank	DBKGn.DE	2	29.14	EUR	Schneider Electric	SCHN.PA	3	43.07	EUR
Deutsche Post	DPWGn.DE	2	13.31	EUR	SERCO GROUP	SRP.L	1	5.25	GBP
Diageo	DGE.L	2	15.48	GBP	SGS 'N'	SGSN.VX	2	1769.00	CHF
E ON (XET)	EONGn.DE	2	14.89	EUR	Siemens	SIEGn.DE	1	66.59	EUR
EADS	EAD.PA	1	27.07	EUR	Skf 'B'	SKFb.ST	3	143.30	SEK
ENI	ENI.MI	1	15.60	EUR	Smiths Group	SMIN.L	2	10.01	GBP
FLSMIDTH & CO.'B'	FLS.CO	2	315.70	DKK	Svenska Handbkn	SHBa.ST	2	203.00	SEK
Fresenius SE	FREG.DE	1	75.90	EUR	Swedbank A	SWEDa.ST	2	103.20	SEK
G4S	GFS.L	1	2.76	GBP	Tate & Lyle	TATE.L	2	6.72	GBP
Geberit 'R'	GEBN.VX	3	188.50	CHF	Technip	TECF.PA	1	73.71	EUR
Generali	GASI.MI	3	8.22	EUR	Telenor	TEL.OL	2	88.85	NOK
GKN	GKN.L	2	1.84	GBP	TeliaSonera	TLSN.ST	1	44.28	SEK
GlaxoSmithKline	GSK.L	1	14.38	GBP	Tenaris	TS.N		32.09	USD
Henkel Pref.	HNKG_p.DE	2	52.33	EUR	Tesco	TSCO.L	3	3.03	GBP
HSBC	HSBA.L	1	5.04	GBP	THE SWATCH GROUP 'B'	UHR.VX	1	377.10	CHF
Iberdrola	IBE.MC	1	3.08	EUR	UBS R	UBSN.VX	1	11.00	CHF
Imperial Tobacco	IMT.L	1	23.43	GBP	Vodafone	VOD.L	1	1.73	GBP
Inditex	ITX.MC	1	66.82	EUR	Volvo B	VOLVb.ST	2	81.55	SEK
Infineon Technologies	IFXGn.DE	1	6.40	EUR	Wolseley	WOS.L	1	22.09	GBP
International Power	IPR.L	2	4.14	GBP	Wpp	WPP.L	2	7.74	GBP

Note: Prices as at Close 30 May 2012. Source: Citi Investment Research and Analysis

Notes

Notes

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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