

Equities

30 August 2011 | 44 pages

Global Emerging Markets Strategy

Re-Setting Our Compass

- **Target Reduced** — While we remain long-term bullish on EM equities, the scale of recent losses forces us to 're-set our compass'. We cut our year-end target for MSCI GEMs to 1,225 from 1,400. This still represents 22% upside from current levels and full year gains of 6.5%. Stronger gains and more multiple expansion are expected in 2012.
- **Russia Downgraded, Turkey Upgraded** — We cut Russia to Neutral based on Citi's new oil price forecast of \$95 (Brent) by year-end and \$86 in 2012. We lift Turkey to Overweight based on: i) recent underperformance; ii) easing inflation pressures; iii) attractive valuations (8x earnings); iv) Turkey is a leading beneficiary of lower oil prices.
- **Unusual** — The recent sharp sell-off in EM equities (-16% in a month to late-August) led to some unusual developments – falling EM bond yields and resilient currencies – and has led to the collapse of rate hike forecasts to end-2011.
- **Lower Yields** — Average EM bond yields are down to 4.1% despite weak equities. Our EM Earnings Yield Ratio is now a three-standard deviation event, favoring equities. The Dividend Yield/Bond Yield gap in EM has narrowed and a crossover has occurred in the Czech Rep, Poland and Taiwan. We screen for Buy-rated names with DYs above local bond yields (Page 10). The list is dominated by Asian names and Financials.
- **Weak Dollar Supports EM Currencies** — Our EM currency proxy fell by only 2.7% during the summer sell-off in EM equities, explained by the absence of a true 'risk-off' dollar rally over this period. EMEA currencies were by far the weakest. As markets rebound, currency gains should bolster returns and favor domestic stocks.
- **Rate Hikes Cancelled** — Nearly 500bps of rate hikes for the rest of 2011 have been cancelled in recent weeks. Flat rates, after rate hikes, are bullish for EM equities.
- **Consumer Discretionary Upgraded** — We upgrade Consumer Discretionary to Overweight from Neutral based on the more benign outlook for EM rates and the still-solid (if slightly downgraded) outlook for EM growth of around 6% in 2011-2012. We screen for Buy-rated stocks in the interest-rate sensitive segments of Consumer Discretionary (Page 15). Names in Brazil, South Africa and Korea predominate.

Equity Strategy

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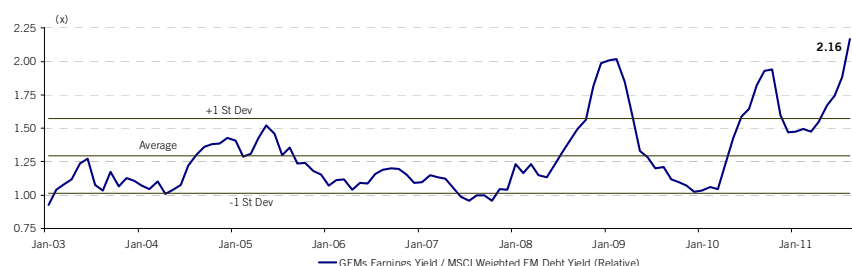
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MSCI GEMs Earnings Yield Ratio (Earnings Yield/Bond Yield)



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

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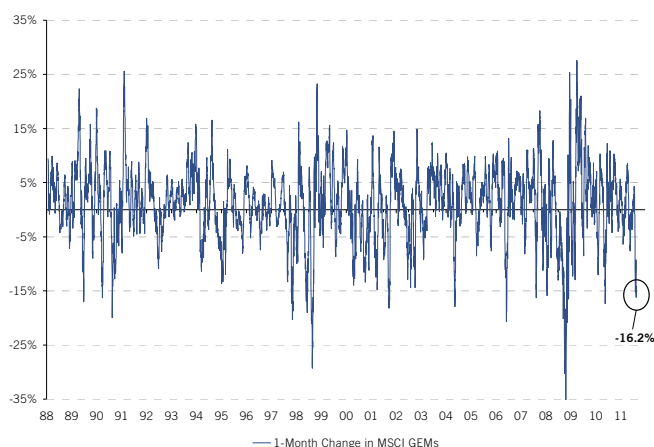
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Re-Setting Our Compass

There are signs that the severe summer sell-off in emerging market (and global) equities may finally be running out of steam. In our last report¹, we noted that the six-day, 16% sell-off in MSCI GEMS in early August was the third worst since 1988. The peak monthly decline (also around 16%) earlier in August has been exceeded on several occasions in the last 20+ years – August 1990, October 1997, Summer 1998, September 2001, the Spring corrections of 2004 and 2006, and Autumn 2008 (Figure 1). However, the carnage in EM equities this summer has been no less dramatic for having some historical precedent. The period of greatest weakness for global equities was from July 22 to August 22, when MSCI GEMS fell by 16.2% and MSCI World (Developed Markets) fell by essentially the same amount; this was a global meltdown - no EM underperformance here.

Figure 1. MSCI GEMS: Monthly Changes (1988-2011)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 2. MSCI GEMS Trading Range with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

While we retain our bullish long-term view of EM equities, the scale and persistence of the recent sell-off (Figure 2) has forced us to 're-set our compass' in terms of market targets. Further near-term market volatility appears possible, until current fears over a 'double-dip' in the US and European economies are finally laid to rest; however, we expect strong gains in emerging market equities during the fourth quarter of this year and into 2012. We expect investors to be richly rewarded over a 6-12 month horizon by buying emerging market equities today.

Updated Views

Our key view changes in this report are set out in brief here and explained in more detail later in the report:

- **Index Target Cut.** We reduce our year-end target for MSCI GEMS to 1,225 from 1,400 previously. The new target now assumes that the index ends the year at a 10% discount to its long-term average on a forward P/E basis (i.e. 10.35x v 11.5x) and compared to just 9x today. We expect further multiple expansion for EM equities in 2012. Our new target translates into a 22% dollar-adjusted gain from current levels to the end of 2011 (and total returns of 23-24%); the new target also implies that the returns from EM equities move back into positive territory for the full year 2011 by year-end (+6.5%).

¹ Global Emerging Markets Strategy, "What's Priced In?" Geoffrey Dennis, August 17, 2011.

- **Russia Downgraded.** We cut Russia to Neutral based on the recent downgrade of Citi's oil price forecasts to an end-year level of \$95/barrel for Brent (15% below current levels) and an average of \$86 in 2012² and the resultant downgrade of Citi's end-2011 RTS target for the equity market to 1,800 by our Russian strategist, Kingsmill Bond³. Despite still solid positives for Russian equities: i) attractive valuations (even by Russian standards); ii) upcoming elections; iii) underperformance in the summer sell-off (-21% v. -16% for MSCI GEMs), the dominant role of Energy in MSCI Russia (59%) implies that the prospect of lower oil prices is a major potential negative for the market;
- **Turkey Upgraded.** We upgrade Turkey from Neutral to Overweight, which is consistent with the views of our CEEMEA strategist, Andrew Howell⁴, based on: i) severe underperformance year-to-date (-28% v. -12.9% for MSCI GEMs); ii) the particular weakness of the Turkish Lira (-12% versus the US Dollar so far this year); in general, Turkish assets look oversold; iii) the easing of inflation pressures means that another rate cut is likely later this year; iv) attractive valuations; v) Turkey is likely to be one of the biggest beneficiaries within emerging markets of lower oil prices; vi) if EM equities rally sharply in Q4, high-beta Turkey is likely to be an outperformer;
- **Consumer Discretionary Upgraded.** We upgrade Consumer Discretionary to Overweight from Neutral for two main reasons: i) a suddenly more benign outlook for interest rates in emerging markets over the rest of 2011 and into 2012; close to 500bp of rate hikes in emerging markets have been cancelled in recent weeks with cumulative hikes of just 100bp now expected across the emerging markets to the end of the year; and ii) still much stronger growth in emerging markets as recent significant downgrades to GDP forecasts for 2011 and 2012 have centered on developed economies, rather than emerging markets (below). We would play these themes by adding weight to the Consumer Discretionary sector, particularly the interest-rate sensitive areas.

Downgrades, Downgrades

The backdrop to the recent major sell-off in global equities (in addition to the Euro Area debt crisis) has been reduced expectations for the global economy, especially for developed economies. Citi economists recently cut their global growth forecast to 3.1% from 3.4% for 2011 and to 3.2% to 3.7% for 2012 (Figure 3). The biggest downgrades were to the developed economies, with the US now expected to grow by only 1.6% this year (down from 2.3% in July) and 2.1% in 2012, while our growth forecast for the Euro Area has been cut to 1.7% for 2011 (from 1.9%) and to just 0.6% in 2012 (from 1.2% previously). We now expect developed economies to grow by only 1.4% in 2011 and 1.7% in 2012, largely due to severe fiscal constraints and the ongoing slow recovery from the financial crisis of 2008-9.

Meanwhile, EM growth forecasts have also been cut, but by less, while they remain far above projected DM growth. We now expect emerging market growth of 6% in 2011 (down from 6.3% previously) and 5.9% in 2012 (from 6.2%). The result is that 70% of global growth in 2011-12 is expected to come from the emerging markets (a historically very high figure), while the growth gap between EM and DM for 2011

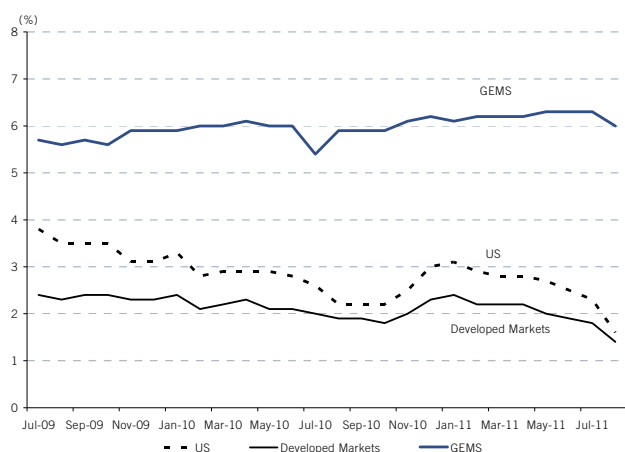
² *Global Commodities Strategy*, "Uncommon Oil Market Ahead...Part II", Edward L Morse, August 22, 2011.

³ *Russian Equity Strategy*, "Downgrading RTS Index Target: Following Global Growth and Oil Price Downgrades", Kingsmill Bond, August 23, 2011.

⁴ *CEEMEA Strategy Notebook*, "Better 2H On its Way: Sell Poland, buy Back Turkey", Andrew Howell, July 12,, 2011.

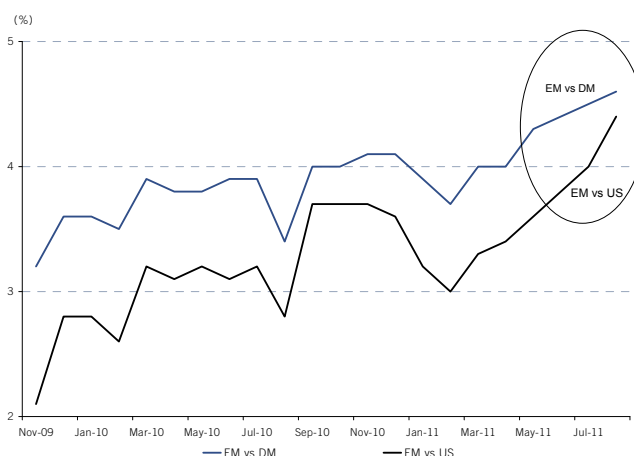
has widened further (Figure 4). Most of the recent downgrades to growth forecasts have been concentrated in Emerging Europe and Africa. In terms of the leading EM economies, we still expect growth of 9% this year and next in China, 7.6% in 2011 and 8.2% in 2012 in India, 3.7% and 4% in the two years in Brazil and 4% and 3.5% respectively in Russia.

Figure 3. Evolution of Citi 2011 GDP Forecasts: Global



Source: Citi Investment Research and Analysis

Figure 4. Evolution of Citi 2011 GDP Forecasts: Differentials



Source: Citi Investment Research and Analysis

With global equity markets falling sharply in recent weeks in response to the perceived worsening of the outlook for the global economy, the argument from our last report remains in place that significant earnings downgrades are now priced into emerging markets, although a return to the severe recessionary conditions of 2008-9 is not. This underpins our long-term bullish outlook.

Bonds, Currencies and Rates

Through all the recent mayhem in equity markets, there have (as we argued in early-August⁵) been some clear 'saving graces' for emerging markets: i) **EM equities have not underperformed dramatically in the recent sell-off**, as they typically have done in past periods of falling markets; this *maybe* a long overdue reward for better fundamentals; ii) **EM growth rates remain high**, both absolutely and relative to the DM growth outlook, as discussed above; iii) **the collapse in US Treasury yields has reduced EM debt yields** to very low (almost, record low) levels, which is unusual in falling markets and is a support for EM valuations.

As the sell-off ran on further into August, it became clear that there were some definite oddities about this period of 'risk-off' and equity market weakness. These factors – historically low bond yields and the absence of a generalized flight to the dollar – have some positive consequences for some EM equity markets.

Meanwhile, the other very welcome result of the recent panic over global growth and the meltdown in global equity markets is the abrupt end to most monetary tightening in emerging markets. As rising inflation and higher interest have been the main *EM-specific* negative for emerging market equities so far this year, the apparent cancellation of virtually all remaining rate hikes for the rest of 2011 and most of 2012 supports our long-term bullish stance on EM equities. We address these issues – and some strategy recommendations from them – in the next part of this report.

⁵ *Global Emerging Markets Strategy*, "Saving Graces", Geoffrey Dennis, August 4, 2011.

Bond Yields Falling/Equities Falling

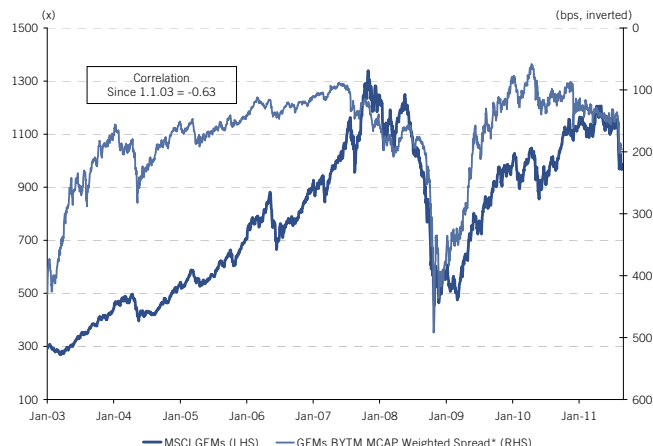
The links between EM equities and bonds (both US and EM) are complex. There has been little predictable relationship between US yields and EM equities over the past ten years (correlation of -0.3). However, there have been fairly consistent (inverse) links between EM equities and, first, EM yields (Figure 5) and, secondly, EM spreads (Figure 6).

Figure 5. MSCI-Weighted EM Debt Yield vs MSCI GEMs



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

Figure 6. MSCI-Weighted EM Debt Spread vs MSCI GEMs



*Nominal spread over 10-year U.S. Treasury

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

As we have argued before, the key link between fixed income markets and EM equities is via EM spreads⁶; if spreads rise, EM equities tend to fall, whatever happens to absolute yields. Therefore, EM equities are likely to behave vis-à-vis US bonds based on the direction of the move in spreads. To quote our May report:

"Falling US yields can lead to EM equities falling, if EM spreads are rising".

This is exactly what has happened during the recent equity sell-off. In the month to August 22, US yields fell by 89bp (2.96% to 2.09%), while EM yields, as defined by the traditional EMBI+ index, fell by just 16bp (5.81% to 5.65%); therefore, spreads widened (by close to 60bp).⁷ Over this period, MSCI GEMs fell by 16%. Based on our own MSCI-Weighted EM debt yield, which we introduced in May (see footnote 6), EM yields fell by 34bp during the July/August equity sell-off, with the average spread over Treasuries rising by 54bp. So, this recent period may have fallen in with the historical record in one sense (higher spreads mean low EM equities).

However, the short-term chart that links EM yields and equities exhibits a clear break in recent weeks (Figure 7), due to size of the drop in US yields. Equities fell by 16% in a month to late-August as bond yields fell! In fairness, this episode may also be simply a reversal of some of the unusual pattern in late-2010 when US yields rose sharply (on better prospects for the US economy) and EM equities were flat (against the historical record that suggested they should have fallen also).

⁶ See *Global Emerging Markets Strategy*, "The End of QE2 and Emerging Markets", Geoffrey Dennis, May 5, 2011.

⁷ We remind investors of the confusing arithmetic around this data. US yield calculations are based on a 10-year maturity, while the EM bond yield data refer to average yield to maturity across the curve. This means that the US yield plus the spread (above) does not exactly equal the EM yield.

Figure 7. MSCI-Weighted EM Debt Yield vs MSCI GEMs



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

Two results flow from this - one subjective and one quantitative. First, the subjective conclusion is that, as discussed recently by our CEEMEA strategist, Andrew Howell, *'one of the notable features of the sell-off has been the relatively orderly performance in most EM bond markets'*⁸. This represents a sea change from earlier periods of severe equity market weakness and may, in our view, be explained by a number of factors. These include much improved fundamentals in the emerging markets and still fairly accommodating monetary policy in EMs, which has kept short rates in most countries extremely low in real terms.

Secondly, the quantitative conclusion is that, as EM debt has become more expensive during the recent sell-off, EM equities have become *markedly* cheaper. Our comparison between equity and bond yields in emerging markets just gets wider and wider (currently 9.00% versus 4.15%, see Figure 8); as a result, our Earnings Yield Ratio model (Figure 9) shows equities at by far their lowest ever relative valuation to EM bonds (by over three standard deviations), lower even than at the trough of EM equities in late-2008⁹. **This large valuation discount of EM equities relative to bonds (and so, the cost of capital) must lead eventually either to: i) sharply higher bond yields; ii) collapsing corporate earnings; iii) sharply higher equity markets; or iv) a combination of all three.** Long-term, we favor the view that equities will rally sharply.

⁸ See CEEMEA Strategy, "Dog Days Indeed. Big Challenges.... But This is *Not* 2008", Andrew Howell, August 12, 2011,

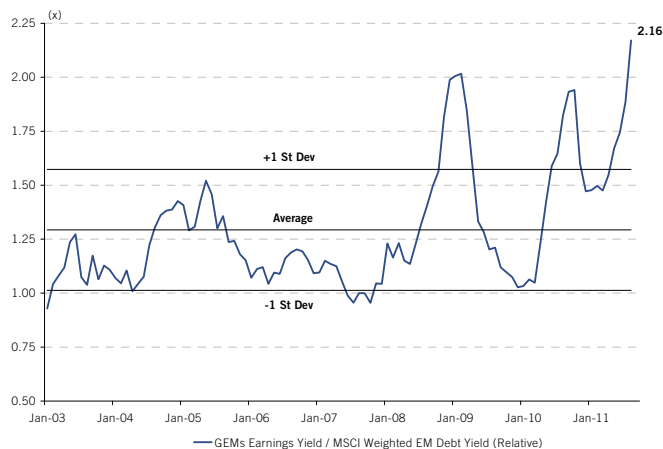
⁹ By contrast, during the (much bigger) sell-off in EM equities in the 2007-8 bear market (-66%), average EM bond yields actually shot up by 540p from 6.41% to 11.81%.

Figure 8. MSCI-Weighted EM Debt Yield vs MSCI GEMs Earnings Yield



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

Figure 9. MSCI GEMs Earnings Yield Ratio



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

There is one other aspect of this debate. The weakness of developed equity markets since late-2007 (in two main periods – up to late-2008 and since May 2011) has led, in both the US and Europe, to the ‘great yield crossover’ where the dividend yield moves above the government bond yield either in a region (in this case, Europe) or for individual markets. (The other crossover – of equity yields over bond yields – happened several quarters ago both in DM and EM.) In Europe, this apparently ‘once in a generation’ event has now happened three times in four years!¹⁰

Figure 10. Emerging Markets: Average Dividend Yield, Bond Yield



Source: MSCI, IBES, Datastream, Factset and CIRA

Figure 11. Emerging Markets: Bond Yield – Dividend Yield Gap



Source: MSCI, IBES, Datastream, Factset and CIRA

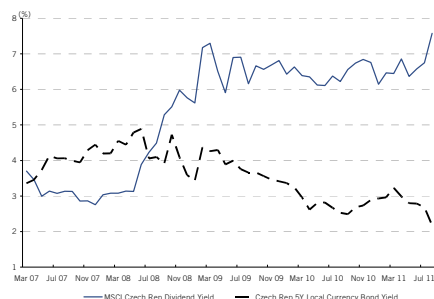
Given that bond yields are (still) higher in emerging, than developed, markets, this BY-DY crossover has not yet occurred in EM equities, nor has it been much talked about. However, the very divergent behavior of EM bonds and equities during the recent equity market sell-off means that these yields are now converging rapidly (Figure 10 above), given an average bond yield in emerging markets of 4.15% and an average dividend yield of 2.70%. The BY-DY gap of just over 145bp is close to

¹⁰ *European Portfolio Strategy*, “Pan European – Paying Dividends” Jonathan Stubbs/ Adrian Cattley, August 18, 2011.

the narrowest on record (Figure 11). This development is different from the 2007-8 bear market, when both bond yields and equity yields rose, although the scale of the sell-off in equities meant that the BY-DY gap still did narrow sharply.

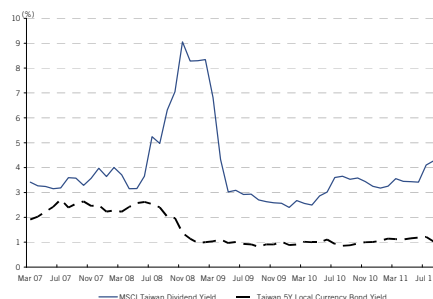
What about individual countries? We compared average dividend yields for each GEMs country with local currency (5-year) bond yields. (The full data by country is in the appendix.) Although the BY-DY gaps by country appear to be narrowing almost everywhere, the only countries where there has been an actual crossover are the Czech Republic, Poland and Taiwan (Figures 12-14). Poland, especially, has underperformed the GEMs benchmark since the early-May peak (-25.4% v. -16.7% for MSCI GEMs), i.e. stock price weakness and so sharply higher dividend yields has led to the DY/BY crossover here. In the case of Taiwan and the Czech Republic, the DY/BY crossover occurred some time ago – in the case of the Czech Republic in early-2008 and for Taiwan much earlier than that.

Figure 12. Czech Republic: Dividend Yield and Local Currency 5Y Bond Yield



Source: MSCI, IBES, Bloomberg, FactSet and CIRA

Figure 13. Taiwan: Dividend Yield and Local Currency 5Y Bond Yield



Source: MSCI, IBES, Bloomberg, FactSet and CIRA

Figure 14. Poland: Dividend Yield and Local Currency 5Y Bond Yield



Source: MSCI, IBES, Bloomberg, FactSet and CIRA

What does this approaching crossover mean for strategy towards EM equity markets? Arguably nothing much as yet. However, assuming EM bond yields stay fairly low, investor interest in high-yielding stocks is likely to increase not just for short-term protection (the conventional reason for buying high yielding stocks), but also to accumulate stocks where the dividend yield exceeds the cost of capital. Therefore, Figure 15 provides a screen of Buy-rated stocks under coverage at CIRA where the dividend yield exceeds that country's local bond yield. We limited the screen to five stocks per country and, in those cases, screened for the five with the biggest DY/BY gap. For any country that has no outstanding dollar bonds¹¹, we used the average dollar debt yield for that country to compare against dividend yields on stocks from that country.

¹¹ This list includes India, Korea, Malaysia, Taiwan, Thailand, Czech Republic, Egypt, Morocco and Poland. Readers will remember that, when we built our MSCI-Weighted EM debt yield series, we used debt yield proxies for the above countries, defined as the yields of an EM country that has the same, or similar, debt rating to the country in question. See *Global Emerging Markets Strategy*, "A New Measure of the Discount Rate in Emerging Markets", May 30, 2011.

Figure 15. CIRA Buy-Rated Stocks with 2012E Dividend Yield > Local Bond Yield (Top Five DY/BY gaps for each market)

Company	Country	Sector	RIC	CIRA Rating	2012E Dvd Yield	Local 5Yr Bond Yield	Dvd Yield - Bond Yield
Hung Poo RE Development	Taiwan	Financials	2536.TW	1L	12.0%	1.0%	10.9%
Chong Hong Construction	Taiwan	Financials	5534.TW	1L	11.9%	1.0%	10.8%
Huaku Development	Taiwan	Financials	2548.TW	1L	10.3%	1.0%	9.3%
Telefonica O2 Czech Rep	Czech Republic	Telecom	SPTTsp.PR	1L	9.8%	2.0%	7.8%
TICON Industrial Connection	Thailand	Financials	TICN.BK	1L	10.3%	3.5%	6.8%
Oriental Union Chemical	Taiwan	Materials	1710.TW	1L	7.5%	1.0%	6.5%
Quanta Computer	Taiwan	Info Tech	2382.TW	1L	7.3%	1.0%	6.2%
Anhui Conch Cement	China	Materials	0914.HK	1L	9.9%	4.0%	5.9%
SPG Land	China	Financials	0337.HK	1H	9.7%	4.0%	5.7%
Chu Kong Oil and Gas Pipe	China	Materials	1938.HK	1H	9.7%	4.0%	5.7%
Komerční Banka as	Czech Republic	Financials	BKOMsp.PR	1L	7.7%	2.0%	5.7%
Budimex SA	Poland	Industrials	BMEX.WA	1L	10.4%	5.1%	5.3%
Tofas	Turkey	Cons Disc	TOASO.IS	1M	13.4%	8.4%	5.0%
Maybank	Malaysia	Financials	MBBM.KL	1L	8.0%	3.3%	4.7%
Telkom	South Africa	Telecom	TKGJ.J	1M	11.0%	6.6%	4.4%
Star Publications	Malaysia	Cons Disc	STAR.KL	1L	7.6%	3.3%	4.3%
Renhe Commercial	China	Financials	1387.HK	1M	8.2%	4.0%	4.2%
Advanced Info	Thailand	Telecom	ADVA.BK	1L	7.6%	3.5%	4.1%
Telekomunikacja Polska SA	Poland	Telecom	TPSA.WA	1M	8.9%	5.1%	3.9%
CEZ	Czech Republic	Utilities	CEZPsp.PR	1M	5.8%	2.0%	3.8%
WOONGJIN THINKBIG	Korea	Cons Disc	095720.KS	1H	7.4%	3.7%	3.7%
TISCO Financial Group	Thailand	Financials	TISCO.BK	1L	7.2%	3.5%	3.7%
China Railway Construction	China	Industrials	1186.HK	1L	7.6%	4.0%	3.6%
PZU	Poland	Financials	PZU.WA	1L	8.4%	5.1%	3.3%
Globe Telecom	Philippines	Telecom	GLO.PS	1L	7.9%	4.6%	3.3%
TAC	Thailand	Telecom	DTAC.BK	1L	6.7%	3.5%	3.2%
PTT Aromatics & Refining	Thailand	Energy	PTTAR.BK	1M	6.7%	3.5%	3.2%
Woori Finance Holdings	Korea	Financials	053000.KS	1M	6.6%	3.7%	3.0%
Bank Pekao SA	Poland	Financials	BAPE.WA	1L	8.0%	5.1%	2.9%
KT Corp.	Korea	Telecom	030200.KS	1M	6.5%	3.7%	2.9%
UMW Holdings	Malaysia	Cons Disc	UMWS.KL	1L	6.1%	3.3%	2.8%
S-Oil	Korea	Energy	010950.KS	1L	6.4%	3.7%	2.7%
SK Telecom	Korea	Telecom	017670.KS	1M	6.2%	3.7%	2.5%
CTEEP	Brazil	Utilities	TRPL4.SA	1M	13.7%	11.5%	2.2%
Media Prima Bhd	Malaysia	Cons Disc	MPRM.KL	1L	5.3%	3.3%	1.9%
Tupras AS	Turkey	Energy	TUPRS.IS	1M	9.9%	8.4%	1.5%
ENTEL Chile SA	Chile	Telecom	ENT.SN	1L	7.6%	6.4%	1.2%
PETRONAS Chemicals Group	Malaysia	Materials	PCGB.KL	1L	4.5%	3.3%	1.2%

Source: MSCI, Factset and Citi Investment Research and Analysis

The list is dominated by Asian names especially, due to low debt yields in the region and, to an extent, EMEA. Countries that hit the maximum number of five stock names in the table are Taiwan, China, Korea and Malaysia. As would be expected given the market charts above, both the Czech Republic and Poland are well represented. By contrast, only two names hit this list from Latin America (where debt yields are much higher and so more competitive with dividend yields) one from Brazil and one from Chile. The sectors that figure prominently in the table would appear to reflect recent relative market performance as much as the list of the traditional high-yielding sectors. There are 12 Financials in this screen and, oddly, only two Utilities. Telecoms are the next best represented with 9 names.

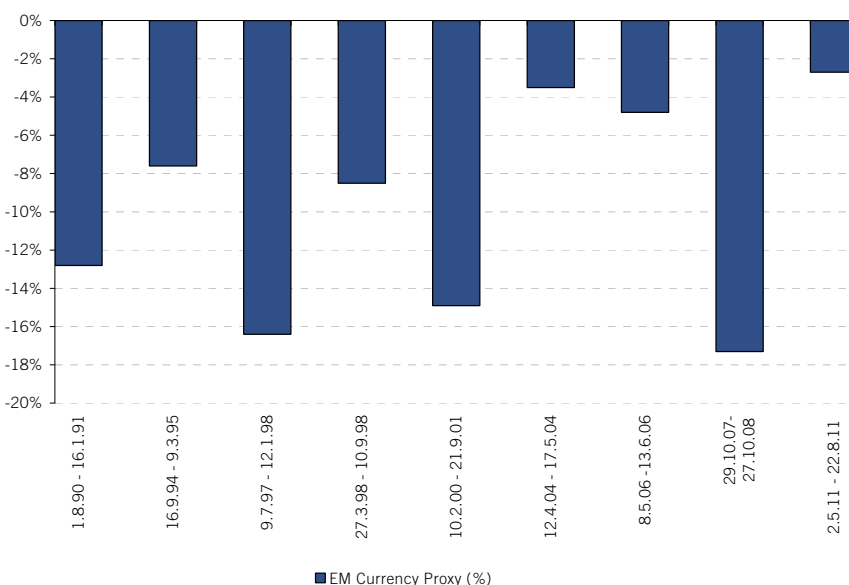
'Risk-Off' and the Dollar

One of the typical features of a 'risk-off' period in financial markets over recent years has been a rally in the US dollar. Also, emerging markets have tended to perform poorly when the dollar is rising and, on the contrary, to do well when the dollar has

been weak¹². The result is that, during periods of severe weakness in emerging markets, currency losses tend to be significant and often account for a sizable chunk of the decline in dollar-based equity indices. However, in this most recent 20% sell-off since May 2, the role of currency weakness in the overall decline in the MSCI GEMs index has been smaller than usual.

We have long measured the contribution of currency performance to the moves in MSCI GEMs via our 'currency proxy' which is defined as MSCI GEMs(\$)/MSCI GEMs (local currency). In Figure 16, for each 20%+ sell-off in MSCI GEMs since 1990 (there have now been nine), we plot the performance of our currency proxy.

Figure 16. EM Currency Proxy (%) During Major GEMs Sell-Offs (>20%)



Source: Citi Investment Research and Analysis

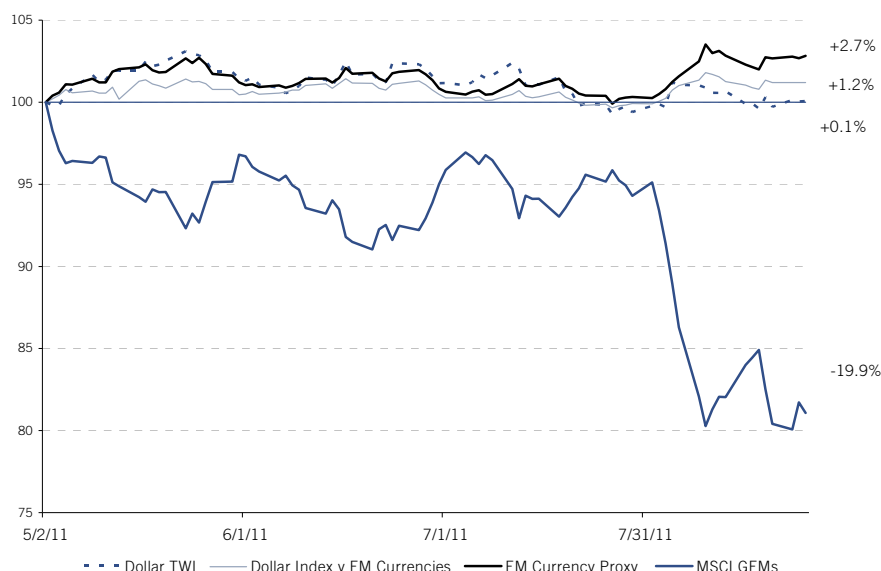
In each of these sell-offs, our currency proxy has been negative (i.e. FX declines versus the dollar have contributed to overall dollar-adjusted losses in EM equities). However, the fall in the currency proxy of only 2.7% during the 2011 equity market sell-off (May 2 – August 22) was the lowest in any major market decline of the last twenty years (and accounted for just 13.5% of the overall decline in MSCI GEMs this time). Although other 'bull market' sell-offs in the last decade also saw only a minor role for currency losses (2004: -3.5%; 2006: -4.8%), the contrast with currency losses of 15% or more in the bear markets of 2007-8, 2000-1 and 1997-8 is remarkable and is faintly reassuring; the recent sell-off did not feel like a new bear market.

There are a couple of clues as to why this recent period of equity market weakness has been different. First, during the 20% decline in EM equities since early-May, the dollar itself has not rallied strongly as it usually does in 'risk-off' periods (Figure 16). The dollar's trade-weighted index was essentially flat (+0.1%) from May 2 to August 22, while an index of the dollar versus mainly emerging market currencies rose by

¹² See *Global Emerging Markets Strategy*, "Strong Dollar: Weak GEMs", Geoffrey Dennis, June 7 2011.

only 1.2%¹³. The latter mirrors fairly closely the decline of just 2.7% in our currency proxy for emerging markets over this period. The weaker than usual performance by the US dollar reflects the sense that US events themselves (double-dip worries and the debt ceiling/downgrade episode) were a major driver of the 'risk-off' period itself. **The 'safe haven' currency trade in the recent 'risk-off' period has not been to buy the dollar, but instead to move into the Swiss Franc, which has risen by 10% against the dollar since early-May.** On average, EM currencies have fallen by around 12-13% versus the Swiss Franc over this period, compared to an average fall of under 3% versus the US dollar.

Figure 17. Measures of Dollar Performance During 2011 EM Sell-off



Source: BOE, MSCI, Datasream and Citi Investment Research and Analysis

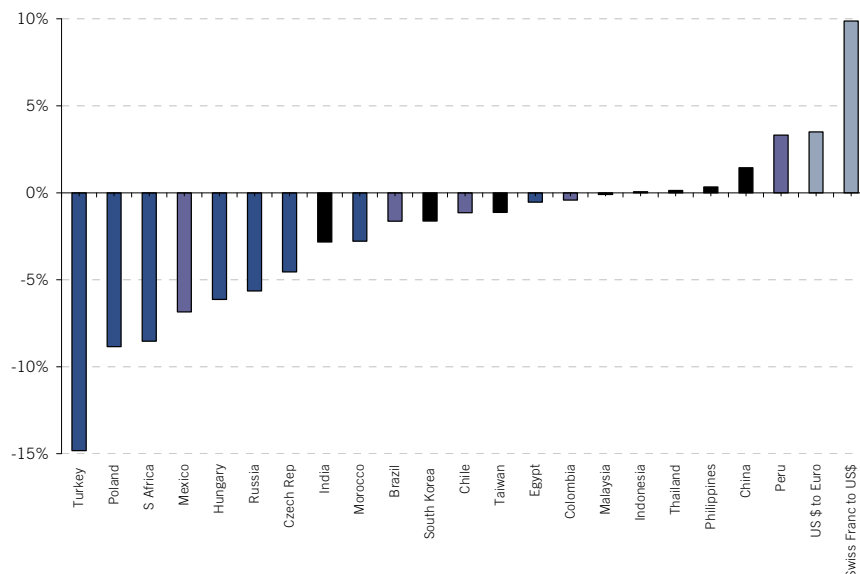
Second, the signs of weakness of EM currencies during the 2011 equity market sell-off have been narrower than normal. There has also been a regional aspect to EM currency performance. Currencies in Asia have held up much better than elsewhere, with the currency proxy for that region falling by only 1.1% in the May-August sell-off (boosted by a rise in the Chinese RMB versus the dollar of 1.4% over this period). By contrast, currencies in EMEA have been much weaker than the average with a steep fall in the region's currency proxy of 7.7%. The currency proxy for Latin America fell by 2.7% over this period, in line with GEMs as a whole.

Figure 18 shows this well by plotting individual EM currency performance versus the dollar during the May-August sell-off. Six of the seven worst currency performers were in EMEA. The Turkish Lira fell by over 14% versus the dollar over this period, with the South African Rand and the Polish Zloty down by over 8%; all CE3 currencies and the Russian Ruble fell sharply. The only currency to break up the monopoly of dominant EMEA weakness was the Mexican peso (-6.8%). At the other end of the spectrum, five of the six strongest currencies over this period were Asian, although the strongest EM currency of all was the Peruvian Sol (+3.3%) as financial

¹³ The Dollar OITP Index (Other Important Trading Partners includes dollar performance versus currencies of Argentina, Brazil, Chile, China, Colombia, Hong Kong, India, Indonesia, Israel, Korea, Malaysia, Mexico, Philippines, Russia, Saudi Arabia, Singapore, Taiwan, Thailand and Venezuela. (Source: Federal Reserve).

asset prices in Peru recovered from severe election-related weakness earlier in the year. Elsewhere, Latin American currencies trended towards broadly average performance with the Brazilian Real falling by just 1.6%. Asian currencies to show significant weakness over this period were those of India (-2.8%) and Korea (-1.6%). The stronger performance over the May-August period of the Swiss Franc (+9.9%) and even the Euro (+3.5%) is noted in the table for comparison.

Figure 18. Currency Performance by Country (MSCI GEMs Sell-Off: 5.2.11 – 8.22.11)



Source: BOE, Datastream and Citi Investment Research and Analysis

The main strategy conclusion from this more resilient performance of EM currencies during the summer 2011 sell-off was that a typical move into export stocks (including commodity-based names, where pricing is in dollars) that might accompany an EM sell-off has been less logical this time. Indeed, if the sell-off is largely over now (as we believe) and the potential pressure on EM currencies is likely to ease, any recovery of EM equities from their recent weakness would tend to favor domestic stocks, as EM currencies rebound to a greater or lesser degree.

Rate Hikes Cancelled

Recent falls in equity markets and commodity prices, alongside downgrades to GDP growth forecasts around the world (above), will all help the emerging market fight against inflation. Citi forecasts were, in any event, calling for lower inflation by the end of 2011 in key emerging markets, including China, India, Russia, Korea, Thailand, Poland and, more modestly, in Brazil also. This falling inflation trend is likely now to be amplified by recent events. The result has been a total collapse of rate hike forecasts in emerging markets for the rest of this year and for 2012.

Figure 19 is our usual depiction of the outlook for interest rates in emerging markets over the rest of 2011. In mid-July, this table showed total rate hikes of 700bp by year-end. (At that time, cumulative rate hikes of close to 1200bp had occurred to date in 2011.) Since mid-July, there have been net rate hikes of 125bp, with increases in India (75bp), Thailand, Brazil and Colombia, partly offset by a 50bp cut in Turkey. The updated table shows that Citi economists now expect rate hikes over the rest of 2011 only in Latin America (Chile, Colombia and Peru) and in India, again

offset by an expected cut in Turkey, for a total cumulative tightening to year-end of just 100bp. This implies that close to 500bp of rate hikes in emerging markets have been cancelled over the past few weeks. For the period up to September 2012, Citi economists now expect rate hikes only in Turkey (+225bp, reversing all of this year's cuts), South Africa (+100bp, which looks like a somewhat bearish forecast at this stage) and the Czech Republic (+25bp).

Figure 19. Emerging Markets: Monetary Policy Outlook (2011, 2012)

	Current CB Rate	Total Hikes Since end-2010	2011 Year-End Forecast	Remaining % Change in 2011	Sept 2012 Forecast	2012 Change	Current		Q411		Nominal GDP Growth 2011e
							Inflation	Real Int Real Rate	Inflation Forecast	Real Int Real Rate	
China	6.56	+75bps	6.56	-	6.56	-	6.5	0.1	4.3	2.3	14.5
India	8.00	+175bps	8.25	+25bps	8.25	-	9.2	-1.2	8.2	0.1	17.1
Indonesia	6.75	+25bps	6.75	-	6.75	-	4.6	2.2	4.6	2.2	12.3
Korea	3.25	+75bps	3.25	-	3.25	-	4.7	-1.5	3.6	-0.3	8.6
Malaysia	3.00	+25bps	3.00	-	3.00	-	3.4	-0.4	3.7	-0.7	8.4
Philippines	4.50	+50bps	4.50	-	4.50	-	5.1	-0.6	4.8	-0.3	9.3
Taiwan	1.88	+12.5bps	1.88	-	1.88	-	1.3	0.6	2.3	-0.4	6.7
Thailand	3.50	+150bps	3.50	-	3.50	-	4.1	-0.6	3.8	-0.3	7.4
Czech Rep	0.75	-	0.75	-	1.00	+25bps	1.7	-1.0	1.0	-0.3	4.1
Hungary	6.00	+25bps	6.00	-	6.00	-	3.1	2.9	3.7	2.3	7.5
Poland	4.50	+100bps	4.50	-	4.50	-	4.1	0.4	3.8	0.7	8.5
Russia	8.25	+50bps	8.25	-	8.00	-25bps	9.0	-0.8	8.0	0.3	13.1
S. Africa	5.50	-	5.50	-	6.50	+100bps	5.0	0.5	5.5	0.0	8.7
Turkey	5.75	-75bps	5.50	-25bps	7.75	+225bps	6.3	-0.6	7.5	-2.0	12.4
Brazil	12.50	+175bps	12.50	-	12.50	-	6.9	5.6	6.5	6.0	10.3
Chile	5.25	+200bps	5.50	+25bps	5.50	-	2.9	2.4	4.0	1.5	9.8
Colombia	4.50	+150bps	5.00	+50bps	5.00	-	3.4	1.1	3.5	1.5	8.7
Mexico	4.50	-	4.50	-	4.50	-	3.6	0.9	3.6	0.9	7.6
Peru	4.25	+125bps	4.50	+25bps	4.50	-	3.4	0.9	3.8	0.7	10.3

Source: Bloomberg and CIRA

As noted above, with rising inflation and higher interest rates having been the main *EM-specific* negative for emerging market equities so far this year, the apparent cancellation of virtually all remaining rate hikes for the forecast period must be seen as good news. There has been some investor concern that rates may not actually *fall* very quickly in many emerging markets; this makes sense as real rates are still low in so many countries. However, for equity markets, going from *rate hikes to flat rates* is a positive; we will get excited about lower rates later. This suddenly more benign outlook for interest rates in emerging markets over the next twelve months is an important positive for equities, in our view, especially as current global growth worries center not on the emerging markets themselves, but on developed economies.

We would play this more benign interest rate outlook in emerging markets in the expected rally to year-end by adding weight to the Consumer Discretionary sector, particularly the interest-rate sensitive areas. With this in mind, Figure 20 set outs a screen of CIRA Buy-rated stocks in the Household Durables, Multiline Retail and Specialty Retail sub-sectors of the MSCI GEMs Consumer Discretionary sector, ranked by annual forecast earnings growth in 2011-12. The results of the screen are dominated by Brazil (three real estate names – MRV, PDG Realty and Gafisa – and Lojas Renner, the retailer), South Africa (three retailers – Woolworths, Foschini and Truworths – and Steinhoff – durables) and Korea (LG Electronics- durables and Lotte Shopping - retail). The screen includes single names from China, Malaysia, Turkey, Taiwan and Mexico. Of the names in the table, two are included in our GEMs Model Portfolio – PDG Realty and Arcelik.

Figure 20. CIRA Buy-Rated Interest Rate Sensitive Stocks (Within Consumer Discretionary Sector)

Company	Country	Industry	CIRA Rating	EPS Growth		Average '11-'12E
				2011E	2012E	
LG Electronics	Korea	Household Durables	1L	-79%	555%	238%
Woolworths Holdings Limited	South Africa	Multiline Retail	1L	38%	19%	29%
Lojas Renner	Brazil	Multiline Retail	1H	26%	24%	25%
Parkson Holdings Bhd	Malaysia	Multiline Retail	1L	11%	37%	24%
MRV Engenharia e Participacoes, SA	Brazil	Household Durables	1H	33%	15%	24%
The Foschini Group Ltd	South Africa	Specialty Retail	1M	20%	18%	19%
Parkson	China	Multiline Retail	1L	17%	20%	18%
Truworths Ltd	South Africa	Specialty Retail	1M	21%	15%	18%
PDG Realty, SA	Brazil	Household Durables	1H	21%	14%	17%
Lotte Shopping	Korea	Multiline Retail	1M	21%	13%	17%
Gafisa, S.A.	Brazil	Household Durables	1H	1%	32%	17%
Steinhoff International Holdings Ltd	South Africa	Household Durables	1H	11%	18%	14%
Arcelik AS	Turkey	Household Durables	1M	5%	21%	13%
Far Eastern Department Store	Taiwan	Multiline Retail	1L	8%	17%	12%
Urbi Desarrollos Urbanos, SAB de CV	Mexico	Household Durables	1M	6%	14%	10%

Source: MSCI, Factset and Citi Investment Research and Analysis

Footnote: We focus here on Buy-Rated names in the Household Durables, Multiline Retail and Specialty Retail sub-sectors of Consumer Discretionary.

Cutting the Target

With this report, we cut our year-end target for the MSCI GEMS index to 1,225 from 1,400 previously. The new target assumes that the index does not rally back to its long-term average multiple of 11.5x forward earnings by year-end (as we had previously assumed) but rebounds only to a discount of 10% to its long-term average (or 10.4x); further multiple expansion to the asset class's long-term average may have to wait until 2012, but we expect it to happen then.

Figure 21. MSCI GEMS Target Chart



Source: MSCI, Datastream and Citi Investment Research and Analysis

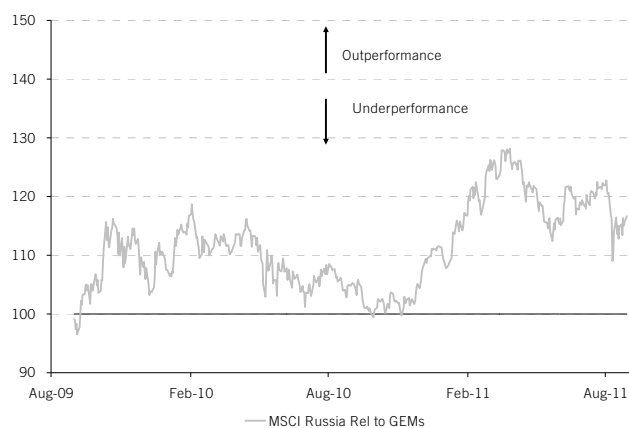
Our new target translates into a 22% gain to end-2011 (and total returns of 23-24%) from current levels, while it also implies that the returns from EM equities move back into to positive territory for the full year by end-2011 (+6.5%). However, this still represents very disappointing gains for this stage of the equity cycle, reflecting the unusually severe worries throughout 2011 over a return to recession (especially in the US) and the ongoing worries over the Euro Area debt crisis. We expect emerging markets to run on and score additional impressive gains in 2012.

Portfolio Changes

In this report, we make three important asset allocation changes. We cut Russia to Neutral and upgrade Turkey to Overweight from Neutral. As a region, EMEA remains a Neutral within our GEMs portfolio. We upgrade Consumer Discretionary back to Overweight from Neutral, paying for this with a cut in the size of our Overweight in IT:

- **Russia Downgraded.** We cut Russia to Neutral, following the recent downgrade of our oil price forecasts to an end-year level of \$95/barrel for Brent (15% below current levels) and an average of \$86 in 2012 and the resultant downgrade of Citi's end-2011 RTS target for the equity market to 1,800 by our Russian strategist, Kingsmill Bond. Russian equities have some clear positives currently: i) the market is attractively valued at 5x forward earnings, which is inexpensive even by Russia standards; ii) the upcoming elections (parliamentary: December 2011; presidential: March 2012) could be a catalyst for the equity market if the future reform agenda becomes an important issue in the campaigns; iii) the market has underperformed (-21% v. -16% for MSCI GEMs) in the summer sell-off. However, with Energy accounting for 59% of MSCI Russia (although oil companies are only around half of this weight), the prospect of lower oil prices is a major potential negative for the market. To play this downgrade, we drop Severstal (steel) from our GEMs Model Portfolio, leaving our Russian representation at X5Retail (Consumer Discretionary), Gazprom (Energy – but gas, not oil) and Sberbank (Banks);

Figure 22. Russia: MSCI Index in USD Relative to GEMs



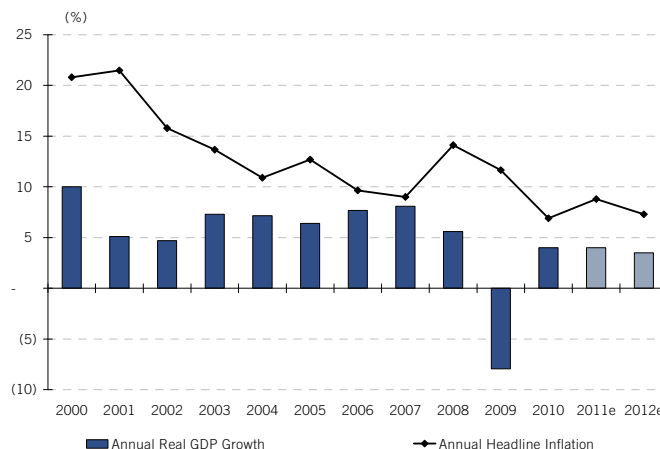
Source: Citi Investment Research and Analysis

Figure 24. Russia: MSCI Forward P/E



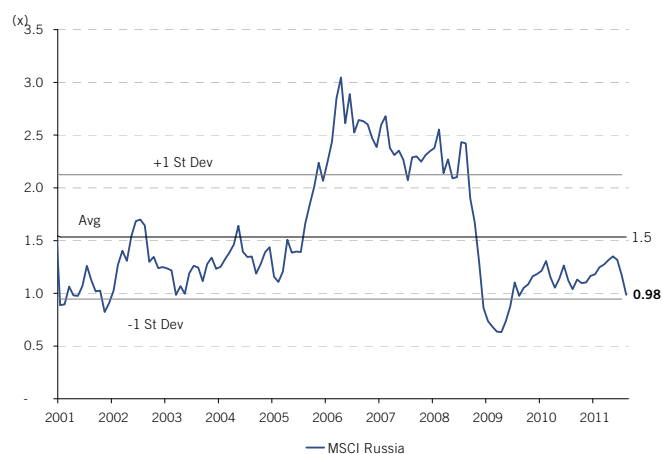
Source: MSCI, Datastream and CIRA

Figure 23. Russia: GDP Growth and Inflation



Source: National Sources and CIRA

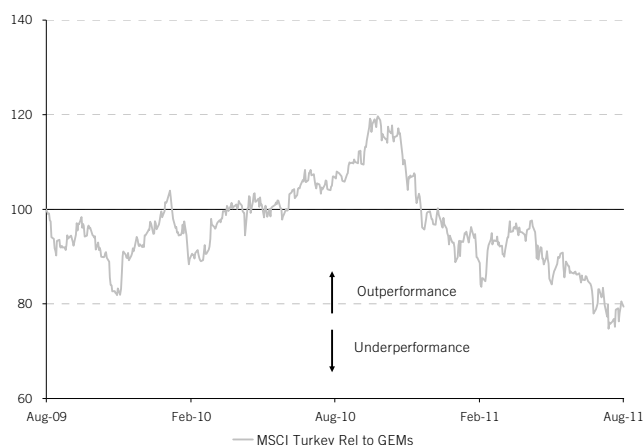
Figure 25. Russia: MSCI Trailing P/B



Source: MSCI, Factset and CIRA

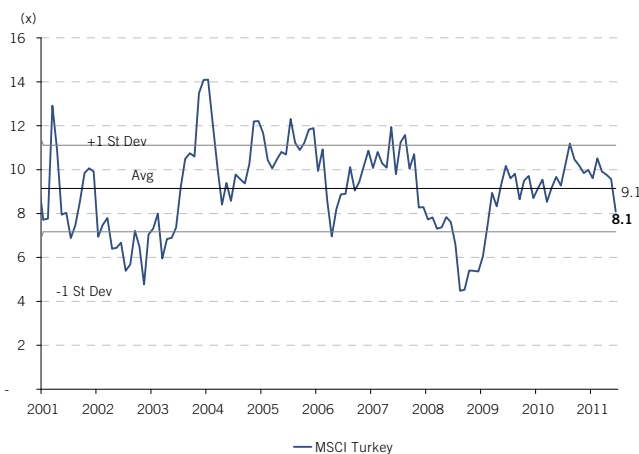
■ **Turkey Upgraded.** A more positive view on Turkey may be as seen as a controversial call, given our frequent comments over the country's weak fundamentals (large current account deficit, mainly financed by short-term capital inflows, and unorthodox monetary policy, incorporating rate cuts so far this year). However, the case for Turkey from here is compelling. It is based on: i) severe underperformance year-to-date (-28%) and during the summer sell-off (-34% v. -20% for MSCI GEMs); ii) the Turkish Lira, in particular, has been very weak (-12% so far this year); in general, Turkish assets look oversold; iii) the easing of inflation pressures means that the case for higher interest rates in Turkey later this year has disappeared and we now expect rates to be cut again before year-end; iv) the equity market is attractively valued at 1.49x Book (26% discount to its recent average) and 8.1x forward earnings (11% discount); v) as a major net importer of oil, Turkey is one of the biggest beneficiaries within emerging markets of our forecast of lower oil prices in the months ahead; vi) if EM equities rally sharply in the fourth quarter, as we expect, high-beta Turkey is likely to be an outperformer. To participate in this upgrade, we add Arcelik (Consumer Discretionary) to our Model Portfolio, alongside Tofas (also Consumer Discretionary);

Figure 26. Turkey: MSCI Index in USD Relative to GEMs



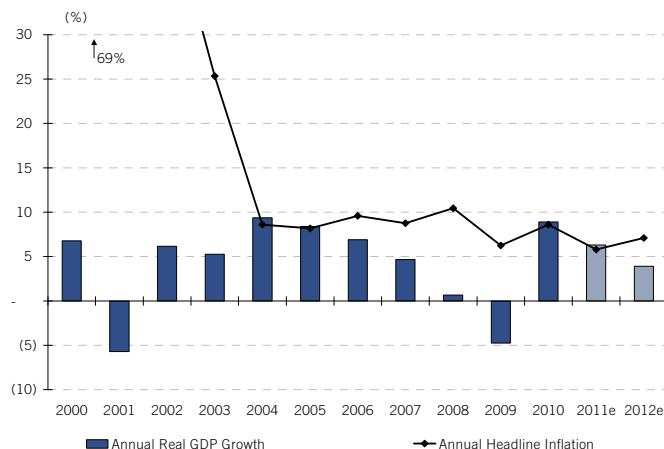
Source: MSCI, Factset and Citi Investment Research and Analysis

Figure 28. Turkey: MSCI Forward P/E



Source: MSCI, Datastream and CIRA

Figure 27. Turkey: GDP Growth and Inflation



Source: National Sources and CIRA

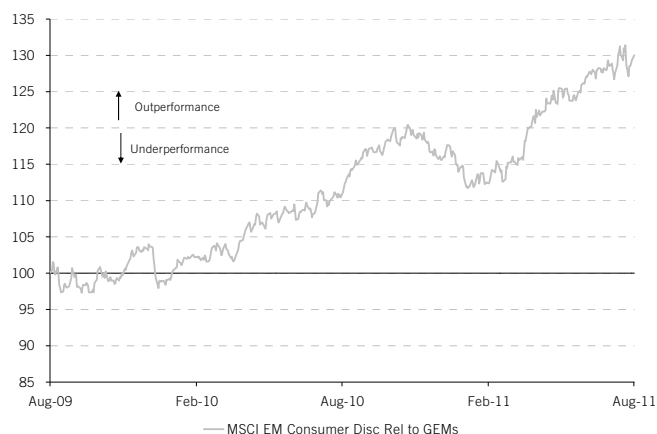
Figure 29. Turkey: MSCI Trailing P/B



Source: MSCI, Factset and CIRA

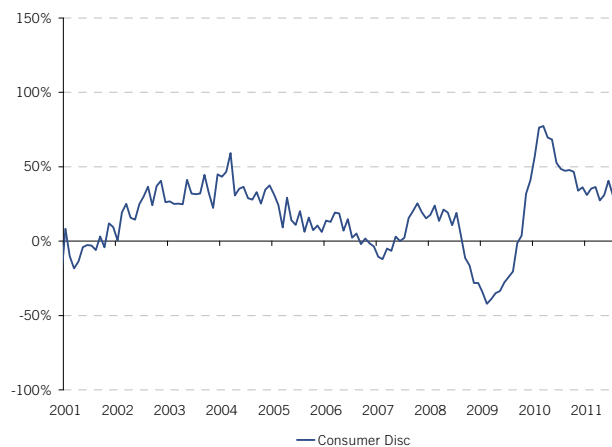
■ **Consumer Discretionary Upgraded.** We upgrade Consumer Discretionary to Overweight from Neutral for two main reasons. The key argument is the suddenly more benign outlook for interest rates in emerging markets over the next twelve months (as discussed above); close to 500bp of rate hikes in emerging markets have been cancelled in recent weeks with cumulative hikes of just 100bp now expected across the emerging markets over the rest of 2011. This is an important positive for EM equities. Secondly, the biggest recent downgrades to GDP forecasts and the major global growth worries center on developed economies, rather than emerging markets. We would play these themes within the emerging markets – still strong growth and a more benign interest rate outlook – in the expected rally to year-end by adding weight to the Consumer Discretionary sector, particularly the interest-rate sensitive areas. To ‘pay’ for this upgrade, we reduce some of our Overweight in the underperforming IT sector.

Figure 30. MSCI Consumer Discretionary Index in USD Relative to GEMs



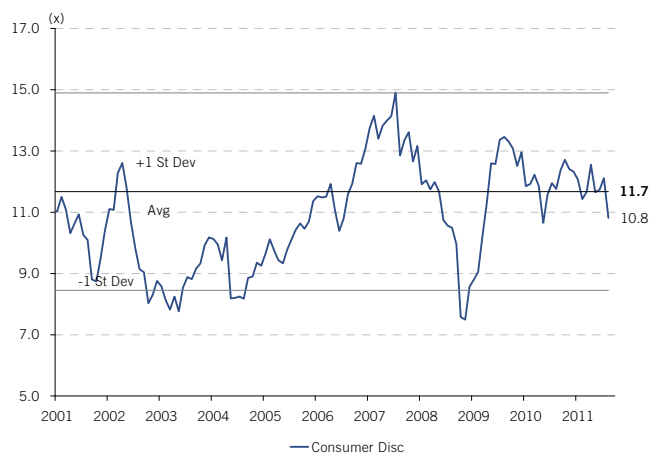
Source: MSCI, Factset and Citi Investment Research and Analysis

Figure 31. MSCI Consumer Discretionary 12M Earnings Growth Forecast (Consensus)



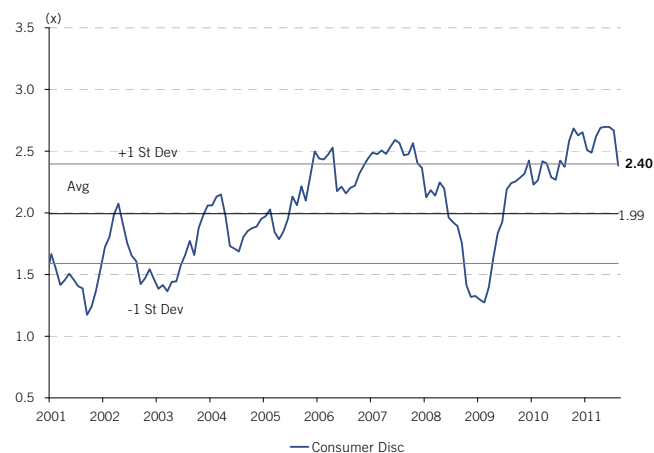
Source: MSCI, Datastream and CIRA

Figure 32. MSCI Consumer Discretionary Forward 12M P/E (Consensus)



Source: MSCI, Datastream and CIRA

Figure 33. Consumer Discretionary Trailing P/B



Source: MSCI, Factset and CIRA

Appendix: Emerging Markets: Dividend Yield and Local Currency 5Y Bond Yield

Figure 34. Emerging Markets: Dividend Yield and Local Currency 5Y Bond Yield

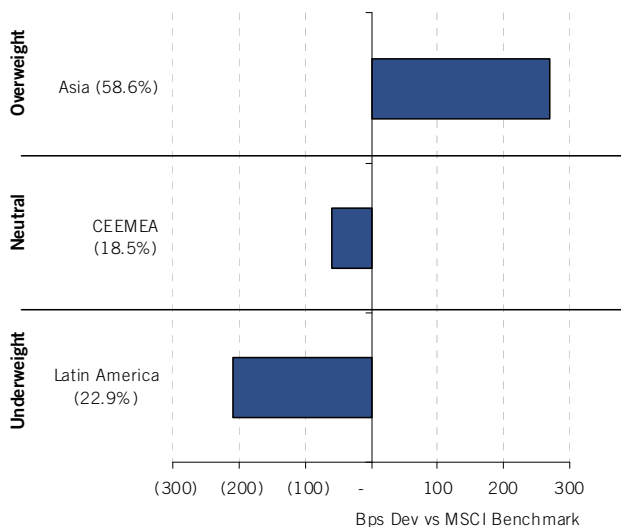
	Dividend Yield	Local 5Yr Bond Yield	Spread
Czech Rep	7.8%	2.0%	5.7%
Taiwan	4.4%	1.0%	3.4%
Poland	5.9%	5.1%	0.8%
Malaysia	3.2%	3.3%	-0.1%
Thailand	3.2%	3.5%	-0.3%
China	2.8%	4.0%	-1.2%
Philippines	2.9%	4.6%	-1.8%
Peru	3.0%	4.8%	-1.8%
Korea	1.3%	3.7%	-2.3%
Mexico	2.0%	5.0%	-3.0%
S Africa	3.1%	6.6%	-3.5%
Indonesia	2.3%	6.1%	-3.8%
Chile	2.4%	6.4%	-4.0%
Hungary	3.0%	7.1%	-4.1%
Turkey	3.8%	8.4%	-4.6%
Russia	2.5%	7.6%	-5.0%
Colombia	1.2%	6.4%	-5.2%
India	1.3%	8.3%	-7.0%
Brazil	2.8%	11.5%	-8.7%

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

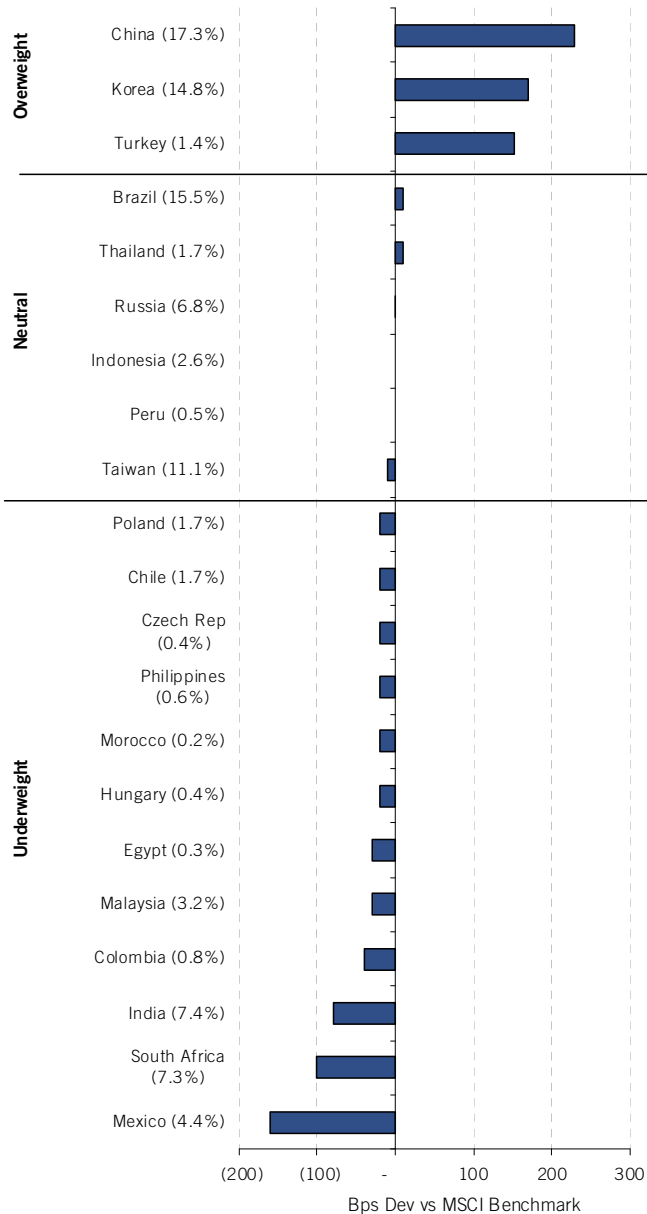
Regional, Country and Sector Allocations

Figure 35. GEMs Regional, Country and Sector Allocation Screen

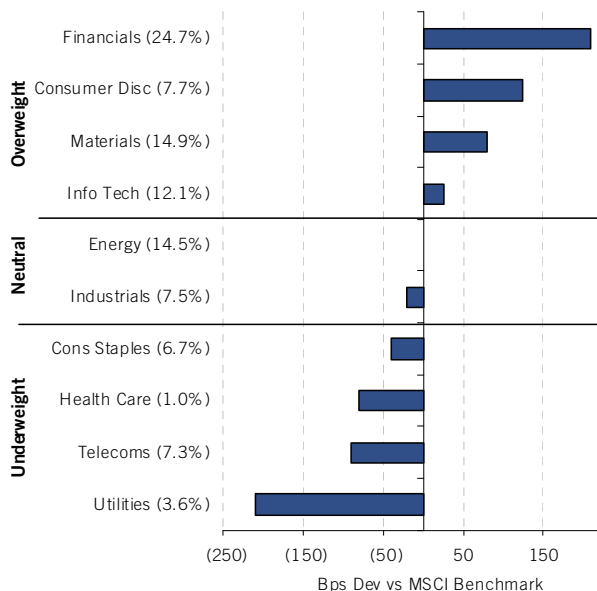
Regional Allocation



Country Allocation



Sector Allocation



Note: Number in parenthesis is benchmark MSCI weight as of close at quarter end.

For methodology, please refer to our Allocation Model in "Beyond the Turbulence", *Global Emerging Markets Strategist*, May 5, 2010.

Source: MSCI and Citi Investment Research and Analysis

Figure 36. GEMs Stocks: Model Portfolio

Company	CIRA Position	Over/Under (Bps)	MSCI Weight	Portfolio Weight	Ticker	Sector	Rating	Mkt Cap US\$, mn	Currency	Price 29-Aug-11	Perf YTD	Date Added	Inception Price	USD Perf
MSCI Brazil	Neutral	10	15.5%	15.6%							-17.3%			
1 Vale (Preferred)			5.6%	5.6%	VALE5.BR	Materials	1M	\$139,091	USD	25.24	-12.7%	16-Aug-10	24.80	1.8%
2 AmBev			3.4%	3.4%	AMBV4.BR	Cons Staples	1M	\$95,329	BRL	34.33	12.7%	13-Jul-10	21.11	62.6%
3 PDG Realty, SA			3.2%	3.2%	PDGR3.BR	Consumer Disc	1H	\$5,141	BRL	7.22	-27.3%	11-Jan-11	10.17	-21.6%
4 Petróleo Brasileiro - Petrobras			3.1%	3.1%	PETR4.BR	Energy	1H	\$177,684	USD	20.49	-22.4%	6-Apr-11	28.17	-54.3%
5 Itaú Unibanco			0.4%	0.4%	ITUB4.BR	Financials	1M	\$79,313	BRL	27.65	-28.1%	28-May-10	33.60	-5.7%
Chile	Underweight	-	1.7%	1.5%							-12.8%			
6 Endesa Chile			1.5%	1.5%	EOC.CL	Utilities	1L	\$13,877	CLP	50.55	-6.4%	11-Jan-11	52.63	-4.0%
China	Overweight	230	17.3%	19.6%							-14.3%			
7 CNOOC			5.7%	5.7%	0883.HK	Energy	1L	\$88,041	CNY	14.90	-15.3%	28-May-10	12.34	20.7%
8 Agricultural Bank of China			5.0%	5.0%	1288.CN	Financials	1L	\$134,484	CNY	3.72	-3.0%	9-Jul-11	4.03	-8.0%
9 China Construction Bank			3.0%	3.0%	0939.CN	Financials	1L	\$181,257	CNY	5.55	-15.3%	6-Apr-11	7.52	-26.5%
10 China Oilfield Services			3.0%	3.0%	2883.CN	Energy	1M	\$6,784	CNY	11.38	-28.9%	6-Apr-11	17.96	-36.9%
11 Mengniu Dairy			1.9%	1.9%	2319.HK	Cons Staples	1M	\$5,998	CNY	25.35	30.1%	4-Nov-10	22.75	11.0%
12 China Mobile			1.0%	1.0%	0941.HK	Telecoms	1L	\$202,412	CNY	77.95	3.9%	11-Jan-11	76.90	1.0%
Colombia	Underweight	(40)	0.8%	0.4%							0.7%			
Czech Republic	Underweight	(20)	0.4%	0.2%							7.0%			
Egypt	Underweight	(30)	0.3%	0.0%							-35.3%			
Hungary	Underweight	(20)	0.4%	0.2%							-6.8%			
India	Underweight	(80)	7.4%	6.6%							-23.9%			
13 Wipro			3.0%	3.0%	WIPR.IN	Info Tech	1L	\$17,869	INR	329.20	-30.4%	28-May-10	398.37	-16.9%
14 State Bank of India			2.1%	2.1%	SBII.IN	Financials	1L	\$27,224	INR	1,938	-28.7%	28-May-10	2,235	-12.8%
15 Mahindra & Mahindra			1.5%	1.5%	MAHM.IN	Industrials	1L	\$9,833	INR	730.45	-3.7%	7-Oct-10	725.70	2.0%
Indonesia	Neutral	-	2.6%	2.6%							9.6%			
16 PT Telkom			2.6%	2.6%	TLKM.ID	Telecoms	1L	\$17,129	IDR	7,250	-5.1%	28-May-10	7,600	3.5%
Korea	Overweight	170	14.8%	16.5%							-8.7%			
17 Shinhan Financial Group			4.4%	4.4%	05550.KR	Financials	1L	\$19,446	KRW	43,500	-16.7%	6-Apr-11	50,200	-3.4%
18 Samsung Electronics			3.8%	3.8%	005930.KR	Info Tech	1L	\$101,747	KRW	733,000	-21.8%	11-Jan-11	913,000	-10.5%
19 Hyundai Heavy Industries			3.3%	3.3%	009540.KR	Industrials	1M	\$24,480	KRW	22,500	-25.7%	11-Jan-11	29,000	-13.5%
20 Hyundai E&C			2.5%	2.5%	000720.KR	Industrials	1M	\$7,215	KRW	69,100	-3.7%	9-Jul-11	89,000	-13.4%
21 KB Financial Group			6.9%	6.9%	105560.KR	Financials	1L	\$15,573	KRW	42,100	-27.8%	28-May-10	49,000	-11.2%
Malaysia	Underweight	(30)	3.2%	2.9%							-2.3%			
22 Maybank			2.9%	2.9%	MBBM.MY	Financials	1L	\$21,861	MYR	8.72	5.9%	29-Aug-11	8.72	7.2%
Mexico	Underweight	(160)	4.4%	2.8%							-8.4%			
Morocco	Underweight	(20)	0.2%	0.0%							-2.2%			
Peru	Neutral	-	0.5%	0.5%							-19.6%			
23 Credicorp			0.5%	0.5%	BAP.PE	Financials	1M	\$7,636	USD	95.96	-17.7%	9-Jul-11	86.69	10.7%
Philippines	Underweight	(20)	0.6%	0.4%							-1.3%			
Poland	Underweight	(20)	1.7%	1.5%							-11.2%			
24 PZU			1.5%	1.5%	PZU.PL	Financials	1L	\$10,574	PLN	346.00	-1.6%	6-Apr-11	367.00	6.3%
Russia	Neutral	(0)	6.8%	6.8%							-7.0%			
25 X5 Retail Group			2.8%	2.8%	PJPq.RU	Consumer Disc	1M	\$9,096	USD	31.30	-32.3%	6-Apr-11	41.00	-23.7%
26 Gazprom			2.7%	2.7%	GAZPPEb.RU	Energy	1M	\$145,672	USD	6.15	-1.4%	11-Jan-11	6.28	-2.0%
27 Sberbank RF			1.3%	1.3%	SBER.RU	Financials	1M	\$63,971	USD	2.80	-16.9%	28-May-10	2.32	20.6%
South Africa	Underweight	(100)	7.3%	6.3%							-10.5%			
28 Impala Platinum			4.7%	4.7%	IMPJ.ZA	Materials	1M	\$15,918	ZAR	177.45	-23.2%	6-Apr-11	201.71	-5.2%
29 Pick'n Pay Stores			1.0%	1.0%	PIKJ.ZA	Cons Staples	1M	\$2,550	ZAR	37.59	-20.2%	9-Jul-11	41.88	-3.3%
30 Standard Bank Group			0.6%	0.6%	SBKJ.ZA	Financials	1L	\$22,154	ZAR	98.83	-5.8%	28-May-10	106.95	-0.1%
Taiwan	Neutral	(10)	11.1%	11.0%							-15.9%			
31 Nan Ya Plastics			5.4%	5.4%	1303.TW	Materials	2L	\$18,231	TWD	68.00	-0.8%	6-Apr-11	88.00	-14.7%
32 UMC			3.5%	3.5%	2303.TW	Info Tech	1L	\$5,002	TWD	11.00	-25.1%	9-Jul-11	14.25	-14.8%
33 Hon Hai Precision			2.1%	2.1%	2317.TW	Info Tech	1L	\$25,259	TWD	64.20	-34.9%	3-Dec-10	102.27	-30.7%
Thailand	Neutral	10	1.7%	1.8%							1.1%			
34 Kasikornbank			1.8%	1.8%	KBAN.TH	Financials	1L	\$9,774	THB	125.00	-4.6%	11-Jan-11	126.50	6.6%
Turkey	Overweight	152	1.4%	2.9%							-28.2%			
35 Arcelik AS			1.6%	1.6%	ARCLK.TR	Consumer Disc	1M	\$2,340	TRY	6.00	-18.3%	29-Aug-11	6.00	
36 Tofas			1.3%	1.3%	TOASO.TR	Consumer Disc	1M	\$1,628	TRY	5.64	-22.9%	9-Jul-11	7.36	
CIRA portfolio of stocks												Since 27-May-2010:		18.1%
MSCI Asia	Overweight	270	58.6%	61.3%							-12.5%			
Latin America	Underweight	(210)	22.9%	20.8%							-14.8%			
EMEA	Neutral	(59)	18.5%	17.9%							-11.0%			
MSCI GEMs		1	100.0%	100.0%							-12.8%	Since 27-May-2010:		11.1%
Thomson Reuters TR EM		1	0.0%	0.0%							-10.6%	Since 27-May-2010:		11.5%

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

Performance

Figure 37. Performance Update

29-Aug-11	Market Data				Performance (Local Currency, %)					Performance (USD, %)				
	Ticker	Index	52w High	52w Low	1Wk	1Mo	3Mo	YTD	1Yr	1Wk	1Mo	3Mo	YTD	1Yr
Global Indices														
MSCI AC World	MXWD	305	358	279	5.0	(8.8)	(11.8)	(10.3)	2.4	5.1	(9.2)	(11.2)	(7.8)	8.5
S&P 500 Index	SPX	1,210	1,371	1,040	7.7	(6.4)	(9.1)	(3.8)	13.7	7.7	(6.4)	(9.1)	(3.8)	13.7
DJ Euro Stoxx 50	SX5E	2,239	3,077	2,077	2.6	(16.1)	(20.6)	(19.8)	(14.9)	3.7	(15.2)	(19.0)	(13.1)	(2.7)
Japan Nikkei 225	NKY	8,851	10,892	8,228	2.6	(10.0)	(7.0)	(13.5)	(1.6)	2.3	(9.7)	(2.2)	(8.8)	8.7
MSCI GEMs	MXEF	1,005	1,206	966	3.5	(9.9)	(12.0)	(14.0)	(2.4)	4.0	(11.7)	(12.5)	(12.8)	3.6
MSCI EM Asia	MXMS	410	494	395	3.5	(12.0)	(13.3)	(13.7)	(1.6)	3.6	(13.1)	(13.4)	(12.5)	3.8
MSCI Latin America	MXLA	3,931	4,730	3,543	4.4	(6.0)	(10.8)	(17.2)	(8.8)	4.6	(8.7)	(11.6)	(14.8)	(1.4)
MSCI EM EMEA	MXEE	349	428	319	2.6	(7.8)	(8.9)	(10.4)	4.8	4.6	(10.9)	(10.9)	(11.0)	9.5
MSCI Indices - Asia														
China	MSEUSCF	57	73	55	2.9	(12.9)	(15.6)	(14.1)	(6.0)	2.9	(12.9)	(15.7)	(14.3)	(6.2)
Korea	MSEUSCO	374	476	324	8.4	(14.8)	(15.6)	(13.6)	3.8	9.4	(16.3)	(14.9)	(8.7)	15.6
Taiwan	MSEUSTW	263	323	240	4.0	(11.3)	(14.4)	(16.3)	(2.0)	3.9	(11.9)	(15.0)	(15.9)	8.0
India	MSEUSIA	426	585	409	0.5	(10.5)	(11.7)	(21.7)	(12.0)	(0.4)	(14.1)	(13.4)	(23.9)	(10.3)
Malaysia	MSDUMAF	442	492	407	(2.1)	(7.5)	(7.3)	(5.5)	3.0	(2.6)	(8.0)	(5.8)	(2.3)	8.7
Indonesia	MSEUSINF	913	1,015	735	(0.4)	(7.6)	(0.6)	3.8	15.6	(0.2)	(7.9)	(0.2)	9.6	22.1
Thailand	MSEUSTHF	344	385	277	(0.5)	(9.1)	(3.8)	0.6	19.2	(1.1)	(9.7)	(2.6)	1.1	24.5
Philippines	MSEUSPHF	346	385	305	1.1	(5.1)	(1.0)	(4.5)	6.3	1.3	(5.8)	1.2	(1.3)	13.3
MSCI Indices - Latin America														
Brazil	MXBR	3,112	3,923	2,797	4.6	(8.0)	(14.1)	(20.4)	(15.0)	5.1	(10.4)	(13.8)	(17.3)	(6.7)
Mexico	MXMX	5,929	6,645	4,988	4.4	(1.6)	(0.2)	(8.0)	11.0	3.4	(6.8)	(6.4)	(8.4)	16.7
Chile	MXCL	2,538	2,942	2,241	2.6	(4.7)	(11.0)	(13.4)	(5.2)	3.4	(6.2)	(10.6)	(12.8)	2.0
Colombia	MXCO	1,120	1,278	1,021	3.8	(0.5)	(5.2)	(6.3)	1.3	3.2	(1.1)	(3.5)	0.7	3.0
Peru	MXPE	1,461	1,904	1,236	6.4	3.1	(4.2)	(19.6)	5.0	6.4	3.1	(4.2)	(19.6)	5.0
MSCI Indices - CEEMEA														
South Africa	MSEUSSA	547	626	469	1.7	(0.3)	(3.7)	(4.9)	11.8	4.4	(4.8)	(5.3)	(10.5)	16.7
Russia	MXRU	867	1,129	756	4.3	(12.7)	(10.3)	(11.5)	8.6	5.3	(15.6)	(12.2)	(7.0)	14.7
Israel	MXIL	215	288	208	0.9	(10.4)	(14.6)	(22.9)	(17.9)	1.1	(14.4)	(17.1)	(23.6)	(12.2)
Turkey	MSEUSTK	449	763	412	1.2	(12.8)	(11.9)	(19.2)	(12.2)	4.6	(15.6)	(18.4)	(28.2)	(22.9)
Poland	MSEUSPO	903	1,210	818	2.2	(13.8)	(18.0)	(14.2)	(1.9)	4.0	(15.8)	(20.0)	(11.2)	7.5
Hungary	MSEUSHG	618	901	559	2.3	(16.5)	(23.1)	(16.0)	(16.0)	3.8	(16.4)	(22.7)	(6.8)	0.2
Egypt	MSIUUEG	556	868	529	0.2	(6.6)	(14.6)	(33.8)	(28.2)	0.6	(6.5)	(14.6)	(35.3)	(31.0)
Czech Republic	MSEUSCZ	540	654	466	1.8	(8.6)	(13.0)	(5.1)	(7.1)	4.6	(7.2)	(9.6)	7.0	9.0
Morocco	MSIUMOR	451	504	408	0.2	1.7	(7.1)	(8.4)	(3.0)	1.1	2.5	(5.6)	(2.2)	8.1
Local Indices - Asia														
China SHANGHAI	SHCOMP	2,576	3,160	2,516	2.4	(4.6)	(4.9)	(8.2)	(1.3)	2.7	(3.8)	(3.3)	(5.2)	5.1
Korea KOSPI	KOSPI	1,830	2,231	1,685	6.9	(14.2)	(12.9)	(10.8)	5.8	7.9	(15.8)	(12.2)	(5.7)	17.8
Taiwan TAIEX	TWSE	7,578	9,221	7,149	3.6	(12.3)	(14.0)	(15.5)	(1.9)	3.6	(12.9)	(14.6)	(15.2)	8.2
India SENSEX	SENSEX	16,416	21,109	15,766	0.5	(9.8)	(10.1)	(20.0)	(8.8)	(0.4)	(13.4)	(11.9)	(22.3)	(7.1)
Malaysia KLSE	KLCI	1,447	1,597	1,402	(1.7)	(6.6)	(6.5)	(4.7)	2.6	(2.1)	(7.0)	(5.1)	(1.5)	8.2
Indonesia JSX	JCI	3,842	4,196	3,058	0.1	(7.0)	0.2	3.7	23.7	0.2	(7.3)	0.6	9.5	30.7
Thailand SET	SET	1,056	1,148	888	(1.1)	(6.9)	(1.1)	2.2	17.2	(1.7)	(7.4)	0.2	2.7	22.4
Local Indices - Latin America														
Brazil Bovespa	IBOV	54,861	73,103	47,793	4.6	(6.7)	(14.7)	(20.8)	(16.4)	5.1	(9.1)	(14.4)	(17.7)	(8.2)
Mexico IPC/Bolsa	MEXBOL	35,016	38,877	31,238	4.2	(2.7)	(2.2)	(9.2)	10.3	3.3	(7.9)	(8.3)	(9.6)	16.0
Chile IPSA	IGPA	4,215	5,041	3,785	2.5	(4.8)	(13.0)	(14.5)	(5.9)	3.3	(6.3)	(12.6)	(13.9)	1.2
Argentina Merval	MERVAL	2,943	3,701	2,302	4.2	(11.4)	(9.9)	(16.5)	25.3	3.9	(12.3)	(12.0)	(20.7)	18.0
Peru BVL General	IGBVL	20,020	23,802	14,976	3.3	(8.8)	(10.5)	(14.4)	32.5	3.2	(8.6)	(9.9)	(12.0)	35.8
Colombia IBB Gen	IGBC	13,476	16,279	12,702	3.3	(4.0)	(6.0)	(13.0)	(3.1)	2.7	(4.6)	(4.3)	(6.6)	(1.5)
Local Indices - CEEMEA														
South Africa JSE	JALSH	30,293	33,335	26,640	2.9	(2.9)	(6.5)	(5.7)	13.3	5.7	(7.3)	(8.0)	(11.2)	18.2
Russian RTS	RTSI\$	1,668	2,124	1,421	5.7	(15.1)	(10.3)	(5.8)	17.3	n/a	n/a	n/a	n/a	n/a
Israel TA 100	TA-100	1,003	1,248	956	0.9	(10.3)	(10.9)	(18.1)	(4.4)	1.2	(14.3)	(13.5)	(18.9)	2.3
Turkey ISE	XU100	54,085	70,786	48,759	1.2	(13.6)	(14.1)	(17.9)	(7.9)	4.6	(16.3)	(20.4)	(27.1)	(19.2)
Poland WIG 20	WIG20	2,352	2,933	2,194	2.1	(13.7)	(17.9)	(14.3)	(3.2)	3.9	(15.7)	(19.9)	(11.3)	6.0
Hungary BUX	BUX	18,316	24,531	16,724	1.2	(15.3)	(20.6)	(14.1)	(16.8)	2.6	(15.2)	(20.2)	(4.8)	(0.8)
Czech PX-50	PX	1,030	1,276	979	3.1	(12.3)	(16.9)	(15.9)	(10.6)	5.9	(11.0)	(13.6)	(5.1)	5.0

Source: MSCI, FactSet and Citi Investment Research and Analysis

Valuations

Figure 38. MSCI GEMs Valuations

26 Aug 11	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA
	US\$bn	%	10E	11E	12E	10E	11E	12E	11E	11E	11E	10	10
Global	26,222	100	12.8	11.2	9.9	44.1	14.2	13.8	1.52	13.5	3.0	1.5	7.8
Developed World	22,723	86.7	13.0	11.4	10.1	45.1	14.0	14.0	1.52	13.2	3.0	1.5	7.9
Emerging World	3,499	13.3	11.6	10.1	8.9	38.6	15.4	12.6	1.53	15.2	3.2	1.4	7.1
Em Asia	2,035	7.8	12.2	10.9	9.5	47.9	11.6	16.3	1.61	14.7	2.9	1.2	7.2
China	597	2.3	11.6	9.8	8.5	40.6	17.8	15.3	1.61	16.5	3.3	1.3	7.1
Korea	500	1.9	9.8	8.6	7.6	60.2	13.7	13.8	1.18	13.8	1.6	0.8	5.9
Taiwan	386	1.5	12.7	13.9	11.4	79.8	-9.2	25.3	1.64	11.6	4.6	1.4	7.4
India	246	0.9	16.8	14.2	12.1	21.1	18.0	17.1	2.33	16.4	1.6	2.1	10.5
Malaysia	115	0.4	16.5	14.8	13.0	23.5	11.2	14.6	2.05	13.7	3.7	2.4	9.6
Indonesia	102	0.4	17.7	14.7	12.5	20.9	20.5	17.2	3.56	24.2	2.6	2.6	8.3
Thailand	67	0.3	13.7	11.2	10.1	32.8	21.4	11.5	2.02	18.0	3.7	1.2	7.3
Philippines	22	0.1	15.6	15.1	13.4	44.9	3.9	12.2	2.50	16.6	3.0	2.8	8.8
Latin America	807	3.1	12.0	10.3	9.3	26.5	16.5	9.5	1.58	15.4	3.5	2.2	7.3
Brazil	533	2.0	10.0	8.7	8.0	32.2	15.5	7.6	1.32	15.3	4.0	2.1	6.8
Mexico	162	0.6	20.7	16.6	13.6	-2.4	24.3	19.5	2.38	14.7	2.1	2.3	8.5
Chile	60	0.2	17.3	16.0	13.9	24.3	8.1	14.8	2.28	13.6	2.7	2.8	10.8
Colombia	32	0.1	21.2	18.8	16.3	36.9	13.2	15.2	2.60	18.5	3.0	3.8	12.2
Peru	21	0.1	16.1	11.8	10.8	26.9	37.2	9.1	3.41	29.0	3.4	9.6	18.2
CEEMEA	657	2.5	9.8	8.0	7.4	30.8	23.8	7.3	1.27	16.1	3.5	1.5	6.1
South Africa	275	1.0	15.0	12.0	9.9	21.7	24.0	20.8	2.07	17.3	3.7	1.6	8.4
Russia	237	0.9	6.9	5.5	5.3	47.3	28.0	0.4	0.86	16.1	2.5	1.4	4.8
Poland	57	0.22	11.6	8.6	8.6	20.2	35.7	-0.4	1.24	14.4	5.3	1.7	5.5
Turkey	45	0.17	9.1	9.3	8.3	12.5	-1.9	11.9	1.43	15.4	3.4	1.5	8.0
Czech Republic	14	0.05	9.6	10.8	10.1	-2.9	-11.6	7.3	1.78	16.5	6.9	2.6	5.4
Hungary	13	0.05	9.2	8.0	7.0	8.7	14.9	13.6	0.94	11.8	4.2	1.1	6.8
Egypt	12	0.05	10.9	9.3	8.0	-10.9	17.5	15.9	1.13	12.2	4.6	2.4	7.5
Morocco	6	0.02	14.7	14.1	13.0	12.2	4.1	8.3	4.15	29.4	5.2	4.4	7.6
GEMs Sectors													
Energy	500	14.3	8.1	6.8	6.6	19.5	20.9	2.0	1.04	15.4	3.2	1.2	6.1
Materials	523	14.9	12.2	8.9	8.1	70.9	36.9	9.9	1.57	17.8	3.5	2.0	8.0
Industrials	247	7.1	12.2	11.4	9.9	88.0	7.1	15.7	1.51	13.2	2.3	1.2	8.4
Consumer Disc.	274	7.8	13.6	11.0	9.5	35.3	23.3	17.0	1.99	18.4	1.7	1.1	8.1
Consumer Staples	257	7.3	20.7	19.5	16.6	25.2	6.5	17.4	3.07	16.4	2.5	1.8	11.7
Health Care	37	1.0	21.0	18.4	15.5	27.2	14.3	18.5	2.78	15.1	1.5	2.2	15.7
Financials	846	24.2	11.7	9.6	8.4	33.6	22.3	14.1	1.44	15.1	3.5	NA	NA
IT	409	11.7	10.6	13.1	10.1	90.5	-20.0	32.6	1.72	12.9	3.0	1.3	6.4
Telecoms	284	8.1	13.1	12.1	11.1	5.6	8.0	9.2	2.10	17.3	4.4	2.0	5.0
Utilities	123	3.5	12.3	11.9	10.2	11.8	3.5	16.1	0.96	8.2	3.7	2.0	7.6

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

Macro Outlook

Figure 39. Citi Macro Forecasts

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F
Asia	9.1%	7.4%	7.5%	4.2%	5.7%	4.7%	3.9%	2.9%	2.5%	-2.3%	-2.6%	-2.4%
China	10.3	9.0	9.0	3.3	5.3	4.2	5.3	4.0	3.5	-1.6	-2.0	-2.0
India	8.5	7.6	8.2	8.6	9.0	7.5	-2.6	-2.8	-2.2	-8.1	-8.3	-7.1
Indonesia	6.1	6.5	6.3	5.1	5.0	6.2	0.9	0.1	-0.3	-0.6	-1.5	-1.5
Korea	6.2	3.7	3.9	3.0	4.3	3.2	2.8	1.6	1.2	1.4	0.8	0.9
Malaysia	7.2	5.0	6.0	1.7	3.3	3.5	11.8	10.5	9.0	-5.6	-5.5	-5.3
Philippines	7.6	3.9	4.6	3.8	4.5	3.7	4.2	2.8	2.4	-3.5	-1.4	-1.1
Taiwan	10.8	4.8	4.6	0.9	1.7	1.8	9.4	8.0	8.0	-3.2	-2.5	-2.0
Thailand	7.8	3.6	5.0	3.3	3.8	3.7	4.6	4.1	2.3	-2.0	-2.9	-2.0
Latin America	6.1%	4.5%	4.1%	7.5%	8.2%	7.6%	-1.0%	-1.0%	-1.3%	-2.6%	-2.3%	-2.0%
Brazil	7.5	3.7	4.0	5.0	6.6	5.5	-2.3	-2.3	-2.7	-2.5	-2.5	-2.5
Chile	5.2	6.3	5.3	1.4	3.5	3.4	1.9	0.2	0.0	-0.3	0.9	1.0
Colombia	4.3	5.3	5.5	2.3	3.4	3.9	-3.1	-2.2	-2.0	-3.6	-3.5	-3.2
Mexico	5.4	4.1	3.5	4.2	3.4	3.6	-0.5	-1.1	-2.4	-2.8	-2.5	-2.0
Peru	8.8	7.1	6.5	1.5	3.2	3.1	-1.5	-2.3	-2.2	-0.8	-0.5	-0.6
CEEMEA	4.6%	4.3%	3.4%	6.1%	6.8%	6.1%	-0.2%	-0.6%	-2.2%	-4.8%	-2.5%	-3.1%
Czech Republic	2.3	2.1	1.5	1.5	1.8	2.3	-3.7	-4.1	-3.5	-4.7	-4.5	-3.9
Hungary	1.2	1.8	1.6	4.7	3.8	3.3	2.1	1.6	0.3	-4.2	2.0	-3.8
Poland	3.8	3.8	2.9	2.7	4.2	2.8	-3.4	-4.8	-4.4	-7.9	-5.7	-4.1
Russia	4.0	4.0	3.5	6.9	8.8	7.2	4.8	4.5	0.9	-4.0	-1.4	-2.7
Turkey	8.9	6.3	3.9	8.6	5.8	7.1	-6.5	-9.9	-9.1	-3.6	-1.9	-2.7
Egypt	5.1	1.4	3.6	11.1	10.8	11.3	-2.1	-4.7	-2.5	-8.1	-9.0	-8.8
South Africa	2.8	3.4	3.5	4.1	4.8	5.5	-2.7	-3.8	-5.2	-5.2	-5.4	-5.1
Total	7.2%	6.0%	5.8%	5.3%	6.4%	5.7%	2.5%	1.7%	1.2%	-2.5%	-2.3%	-2.2%

Source: Citi Investment Research and Analysis

Figure 40. GEMs Allocation Model Ranking

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

Source: MSCI, FactSet, Datastream, JP Morgan, IBES, Bloomberg and Citi Investment Research and Analysis.

Other companies mentioned:

S-Oil (010950.KS; W117,500; 1L)

SK Telecom (017670.KS; W152,000; 1M)

Lotte Shopping (023530.KS; W430,000; 1M)

KT Corp. (030200.KS; W36,700; 1M)

SPG Land (0337.HK; HK\$1.88; 1H)

Woori Finance Holdings (053000.KS; W11,800; 1M)

LG Electronics (066570.KS; W64,000; 1L)

Anhui Conch Cement (0914.HK; HK\$31.85; 1L)

WOONGJIN THINKBIG (095720.KS; W17,650; 1H)

China Railway Construction (1186.HK; HK\$4.09; 1L)

PZU (PZU.WA; ZL349.80; 1L)

Oriental Union Chemical (1710.TW; NT\$48.10; 1L)

Chu Kong Oil and Gas Pipe (1938.HK; HK\$2.16; 1H)

Quanta Computer (2382.TW; NT\$57.60; 1L)

Hung Poo Real Estate Development (2536.TW; NT\$26.60; 1L)

Huaku Development (2548.TW; NT\$70.80; 1L)

Far Eastern Department Store (2903.TW; NT\$53.00; 1L)

Parkson (3368.HK; HK\$10.34; 1L)

Chong Hong Construction (5534.TW; NT\$71.00; 1L)

Advanced Info (ADVA.BK; Bt113.00; 1L)

Arcelik AS (ARCLK.IS; TL6.00; 1M)

Bank Pekao SA (BAPE.WA; ZL140.80; 1L)

Komercni Banka as (BKOMsp.PR; Kc3,471.00; 1L)

Budimex SA (BMEX.WA; ZL71.35; 1L)

CEZ (CEZPsp.PR; Kc769.00; 1M)

TAC (DTAC.BK; Bt69.25; 1L)

ENTEL Chile SA (ENT.SN; ChP9,670.00; 1L)

Gafisa, S.A. (GFSA3.SA; R\$7.29; 1H)

Globe Telecom (GLO.PS; P899.50; 1L)

Lojas Renner (LREN3.SA; R\$57.65; 1H)

Maybank (MBBM.KL; RM8.72; 1L)

Media Prima Bhd (MPRM.KL; RM2.72; 1L)

MRV Engenharia e Participacoes, SA (MRVE3.SA; R\$12.45; 1H)

PETRONAS Chemicals Group (PCGB.KL; RM6.22; 1L)

PDG Realty, SA (PDGR3.SA; R\$7.28; 1H)

Parkson Holdings Bhd (PRKN.KL; RM5.42; 1L)

PTT Aromatics & Refining (PTTAR.BK; Bt33.00; 1M)

PZU (PZU.WA; ZL349.80; 1L)

Steinhoff International Holdings Ltd (SHFJ.J; R22.42; 1H)

Telefonica O2 Czech Republic (SPTTsp.PR; Kc429.10; 1L)

Star Publications (STAR.KL; RM3.38; 1L)

The Foschini Group Ltd (TFGJ.J; R92.90; 1M)

TICON Industrial Connection (TICN.BK; Bt13.30; 1L)

TISCO Financial Group (TISCO.BK; Bt40.00; 1L)

Telkom (TKGJ.J; R35.14; 1M)

Tofas (TOASO.IS; TL5.64; 1M)

Telekomunikacja Polska SA (TPSA.WA; ZL16.46; 1M)

CTEEP (TRPL4.SA; R\$46.02; 1M)

Truworths Ltd (TRUJ.J; R75.70; 1M)

Tupras AS (TUPRS.IS; TL32.50; 1M)

UMW Holdings (UMWS.KL; RM7.24; 1L)

Urbi Desarrollos Urbanos, SAB de CV (URBI.MX; P\$22.70; 1M)

Woolworths Holdings Limited (WHLJ.J; R34.25; 1L)

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.

IMPORTANT DISCLOSURES

Hyundai E&C (000720.KS)

Ratings and Target Price History

Fundamental Research

Analyst: Sungmee Park, CFA
Covered since January 12 2010

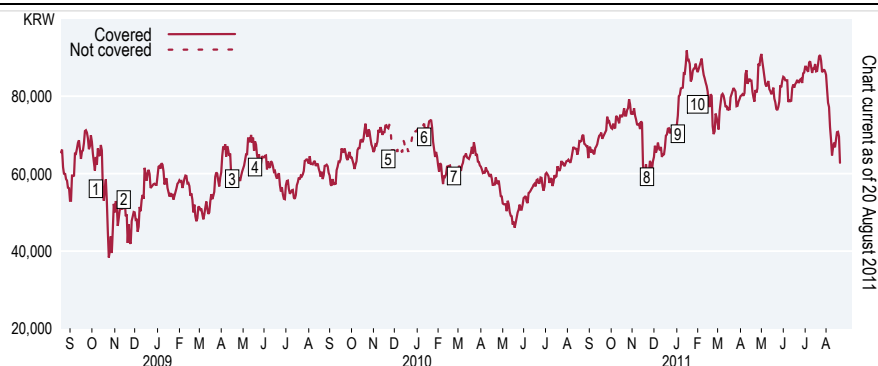


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	7-Oct-08	1M	*97,000.00	64,300.00
2	14-Nov-08	*2S	*62,000.00	52,800.00
3	16-Apr-09	*1M	*79,000.00	60,000.00
4	19-May-09	1M	*91,000.00	68,300.00

* Indicates change

	Date	Rating	Target Price	Closing Price
5	23-Nov-09	Coverage terminated		
6	12-Jan-10	*2M	*81,000.00	72,900.00
7	23-Feb-10	*1M	*80,000.00	60,600.00
8	21-Nov-10	1M	*78,000.00	62,400.00

	Date	Rating	Target Price	Closing Price
9	4-Jan-11	1M	*89,500.00	75,000.00
10	1-Feb-11	1M	*110,000.00	86,200.00

Rating/target price changes above reflect Eastern Standard Time

Hyundai E&C (000720.KS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Sungmee Park, CFA
Covered since January 12 2010

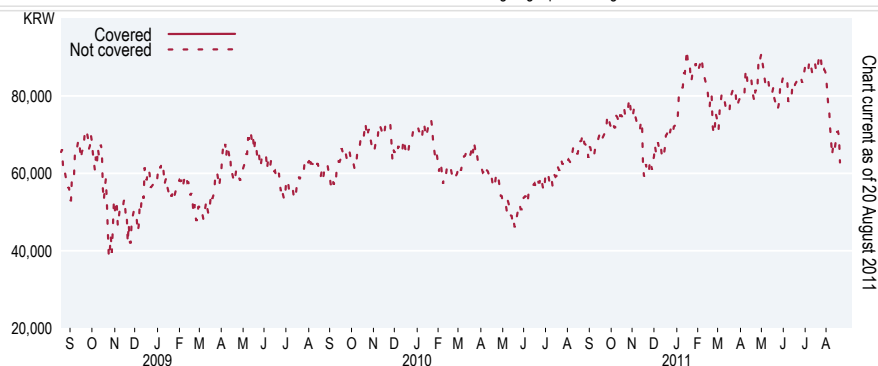


Chart current as of 20 August 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Samsung Electronics (005930.KS)

Ratings and Target Price History

Fundamental Research

Analyst: Henry H Kim, CFA

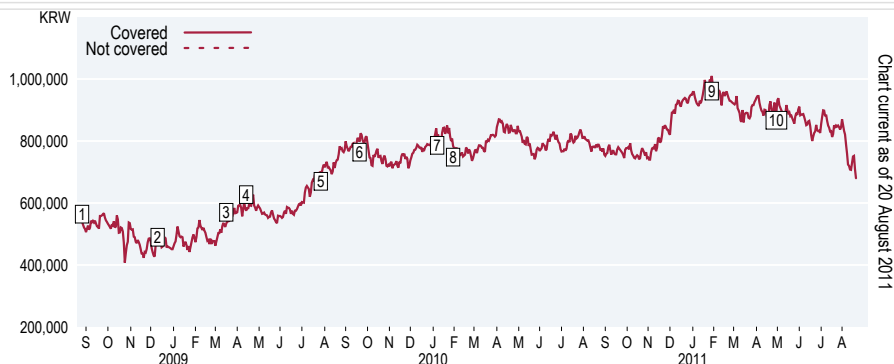


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	26-Aug-08	1L	*700,000.00	540,000.00
2	10-Dec-08	1L	*664,000.00	481,000.00
3	17-Mar-09	1L	*690,000.00	534,000.00
4	14-Apr-09	1L	*810,000.00	575,000.00

* Indicates change

	Date	Rating	Target Price	Closing Price
5	28-Jul-09	1L	*900,000.00	700,000.00
6	21-Sep-09	1L	*1,030,000.00	798,000.00
7	7-Jan-10	1L	*1,100,000.00	813,000.00
8	29-Jan-10	1L	*1,160,000.00	784,000.00

	Date	Rating	Target Price	Closing Price
9	28-Jan-11	1L	*1,200,000.00	1,010,000.00
10	29-Apr-11	1L	*1,250,000.00	893,000.00

Rating/target price changes above reflect Eastern Standard Time

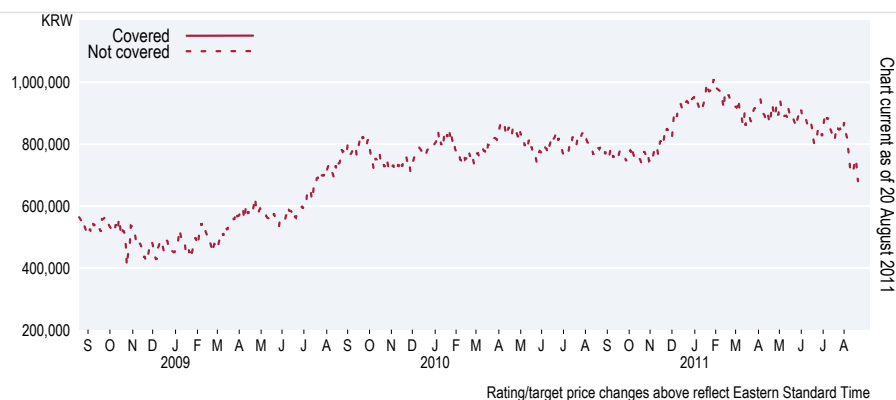
Samsung Electronics (005930.KS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Henry H Kim, CFA



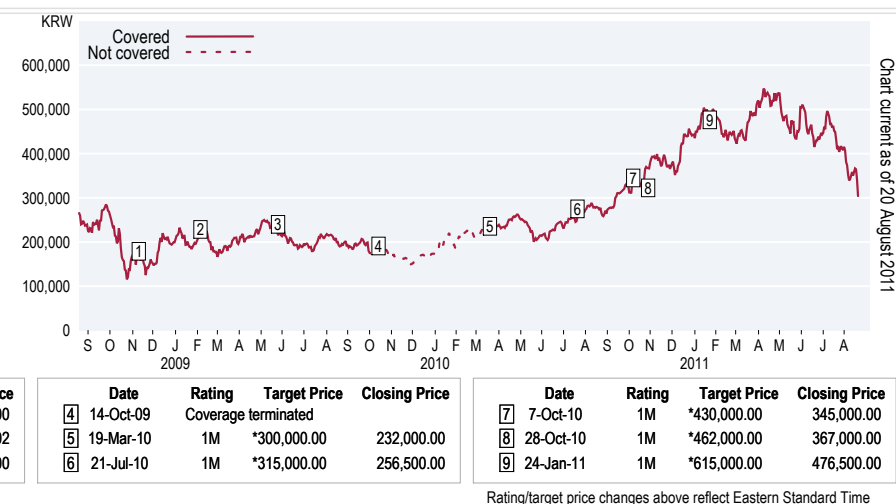
Hyundai Heavy Industries (009540.KS)

Ratings and Target Price History

Fundamental Research

Analyst: Ethan Kim

Covered since March 19 2010



Date	Rating	Target Price	Closing Price
1 11-Nov-08	*1S	*320,000.00	165,000.00
2 5-Feb-09	*2S	*281,000.00	220,000.02
3 26-May-09	*1M	*310,000.00	215,500.00

Date	Rating	Target Price	Closing Price
4 14-Oct-09	Coverage terminated		
5 19-Mar-10	1M	*300,000.00	232,000.00
6 21-Jul-10	1M	*315,000.00	256,500.00

Date	Rating	Target Price	Closing Price
7 7-Oct-10	1M	*430,000.00	345,000.00
8 28-Oct-10	1M	*462,000.00	367,000.00
9 24-Jan-11	1M	*615,000.00	476,500.00

Hyundai Heavy Industries (009540.KS)

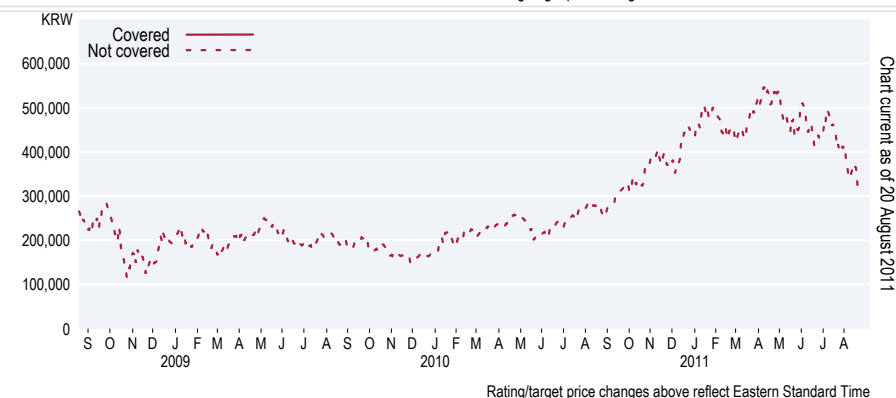
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ethan Kim

Covered since March 19 2010



S-Oil (010950.KS)

Ratings and Target Price History Fundamental Research

Analyst: Oscar Yee



Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*1L	*68,000.00	59,800.00
2	29-Jan-10	1L	*62,000.00	51,500.00

	Date	Rating	Target Price	Closing Price
3	19-Nov-10	1L	*90,000.00	76,900.00
4	27-Jan-11	1L	*125,000.00	110,499.99

	Date	Rating	Target Price	Closing Price
5	5-Apr-11	1L	*160,000.00	149,000.00
6	29-Apr-11	1L	*176,000.00	159,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

S-Oil (010950.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Oscar Yee

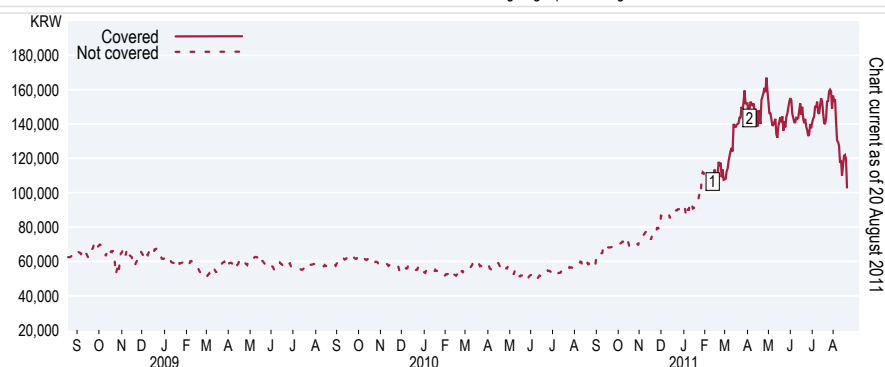


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	107,000.00

	Date	Rating	Target Price	Closing Price
2	5-Apr-11	*REM MP	-	149,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lotte Shopping (023530.KS)

Ratings and Target Price History Fundamental Research

Analyst: Ally Park



Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	16-Oct-08	*3M	*236,000.00	194,000.00
2	30-Oct-08	3M	*166,000.00	171,000.00

	Date	Rating	Target Price	Closing Price
3	9-Apr-09	3M	*154,000.00	217,000.00
4	30-Jul-09	*1M	*370,000.00	307,500.00

	Date	Rating	Target Price	Closing Price
5	17-Feb-10	1M	*382,000.00	320,000.00
6	10-Nov-10	1M	*624,000.00	513,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

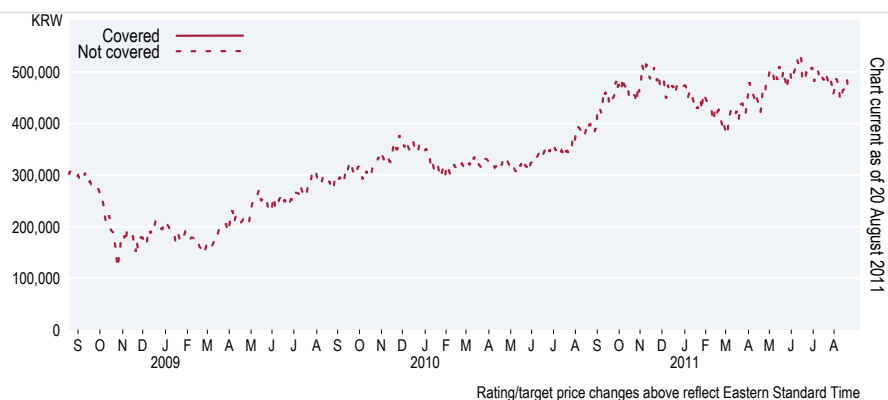
Lotte Shopping (023530.KS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ally Park



KT Corp. (030200.KS)

Ratings and Target Price History

Fundamental Research

Analyst: Sean Lee, CFA



Date	Rating	Target Price	Closing Price
1 31-Oct-08	*2M	*35,000.00	33,000.00
2 15-Jan-09	2M	*45,000.00	38,750.00
3 7-Apr-09	2M	*42,000.00	38,500.00
4 8-Jul-09	*1M	*46,000.00	37,000.00

Date	Rating	Target Price	Closing Price
5 11-Jan-10	1M	*53,000.00	44,600.00
6 17-May-10	1M	*57,000.00	46,900.00
7 31-Jan-11	1M	*54,000.00	41,800.00
8 16-Jun-11	1M	*52,000.00	36,350.00

Date	Rating	Target Price	Closing Price
9 22-Jun-11	1M	*54,000.00	37,850.00
10 8-Aug-11	1M	*47,000.00	37,550.00

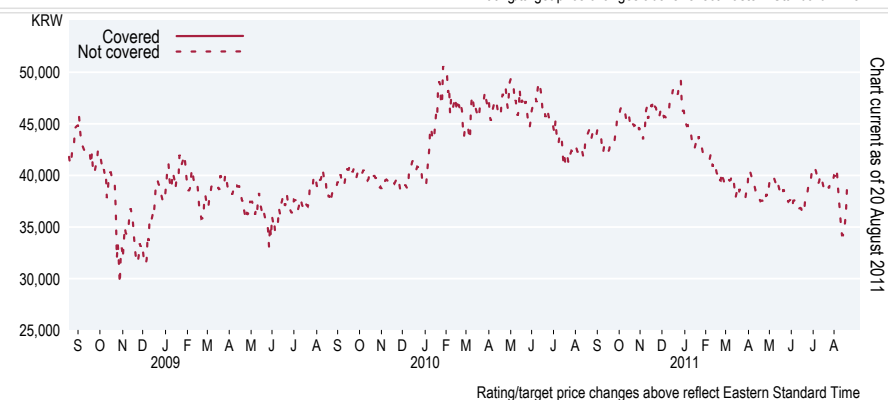
KT Corp. (030200.KS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Sean Lee, CFA



Woori Finance Holdings (053000.KS)

Ratings and Target Price History Fundamental Research

Analyst: Jinsang Kim
Covered since June 16 2010

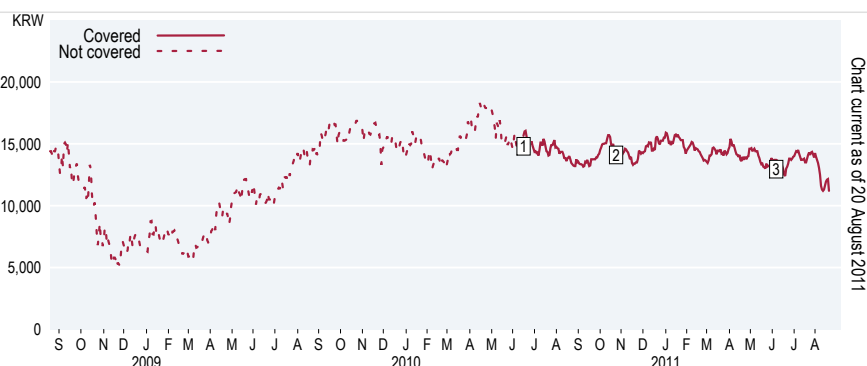


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	16-Jun-10	1M	*19,700.00	15,700.00

* Indicates change

	Date	Rating	Target Price	Closing Price
2	25-Oct-10	1M	*21,700.00	14,650.00

	Date	Rating	Target Price	Closing Price
3	7-Jun-11	1M	*19,500.00	13,700.00

Rating/target price changes above reflect Eastern Standard Time

Woori Finance Holdings (053000.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jinsang Kim
Covered since June 16 2010

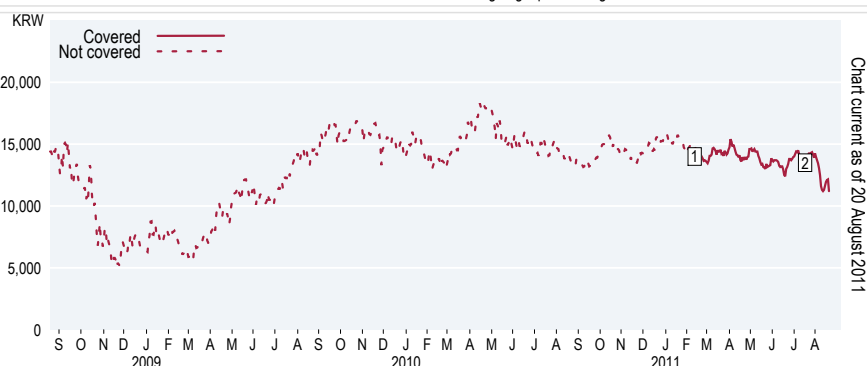


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	14,450.00

* Indicates change

	Date	Rating	Target Price	Closing Price
2	18-Jul-11	*REM MP	-	13,500.00

Rating/target price changes above reflect Eastern Standard Time

Shinhan Financial Group (055550.KS)

Ratings and Target Price History Fundamental Research

Analyst: Jinsang Kim
Covered since October 1 2009

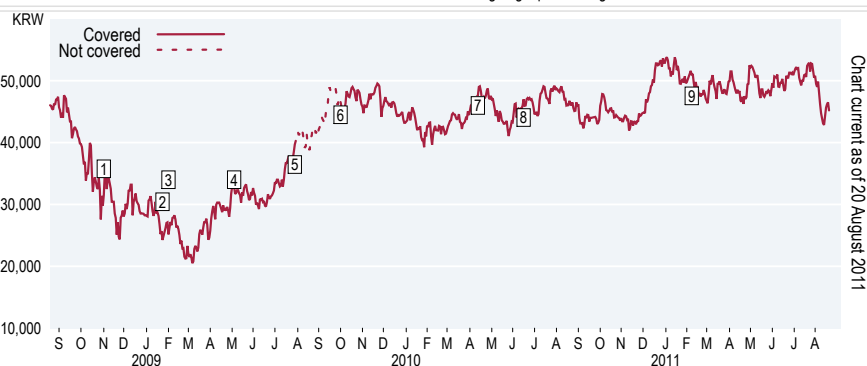


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	2-Nov-08	*1H	*47,553.95	29,768.77
2	23-Jan-09	1H	*36,141.00	24,252.52
3	2-Feb-09	1H	*32,812.23	25,156.04

* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-May-09	*2M	*37,500.00	34,000.00
5	29-Jul-09	Coverage terminated		
6	1-Oct-09	*1L	*55,000.00	46,550.00

	Date	Rating	Target Price	Closing Price
7	13-Apr-10	1L	*57,000.00	47,550.00
8	16-Jun-10	1L	*55,700.00	47,000.00
9	8-Feb-11	1L	*60,000.00	50,900.00

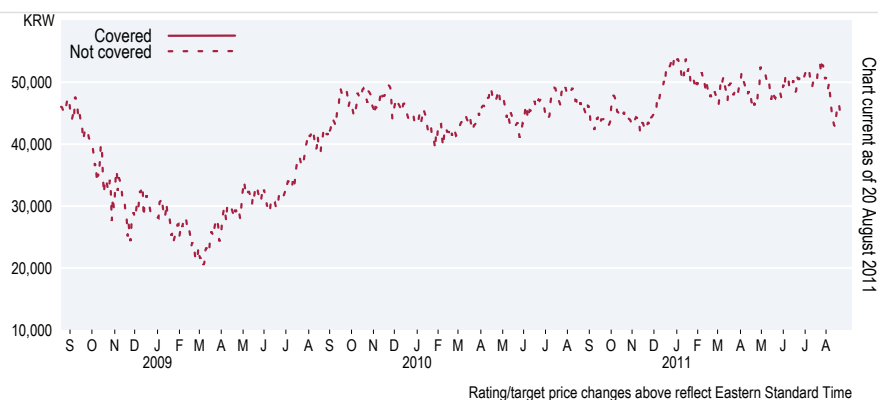
Rating/target price changes above reflect Eastern Standard Time

Shinhan Financial Group (055550.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jinsang Kim

Covered since October 1 2009

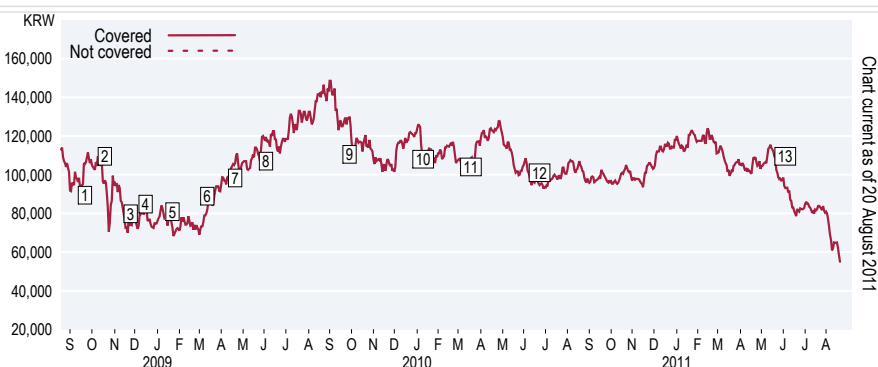


* Indicates change

LG Electronics (066570.KS)

Ratings and Target Price History Fundamental Research

Analyst: Henry H Kim, CFA



Date	Rating	Target Price	Closing Price
1 22-Sep-08	1L	*157,000.00	105,500.00
2 20-Oct-08	1L	*148,000.00	97,100.00
3 25-Nov-08	1L	*129,000.00	74,200.00
4 16-Dec-08	1L	*115,000.00	82,100.00
5 22-Jan-09	1L	*100,000.00	72,500.00

Date	Rating	Target Price	Closing Price
6 12-Mar-09	1L	*110,000.00	82,000.00
7 21-Apr-09	1L	*138,000.00	105,999.99
8 3-Jun-09	1L	*154,000.00	119,500.00
9 29-Sep-09	1L	*163,000.00	129,999.99
10 11-Jan-10	1L	*167,000.00	110,500.00

Date	Rating	Target Price	Closing Price
11 18-Mar-10	1L	*160,000.00	108,500.00
12 23-Jun-10	1L	*140,000.00	94,600.00
13 3-Jun-11	1L	*135,000.00	93,100.00

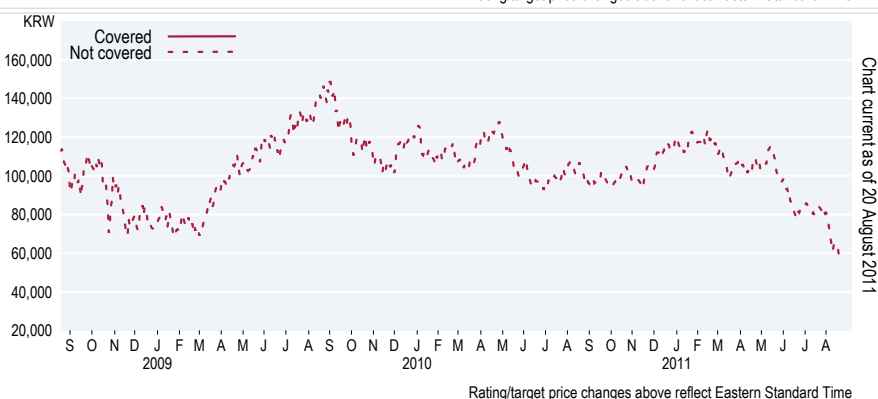
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Rating/target price changes above reflect Eastern Standard Time

LG Electronics (066570.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Henry H Kim, CFA



* Indicates change

WOONGJIN THINKBIG (095720.KS)

Ratings and Target Price History Fundamental Research

Analyst: Sean Lee, CFA
Covered since April 9 2009

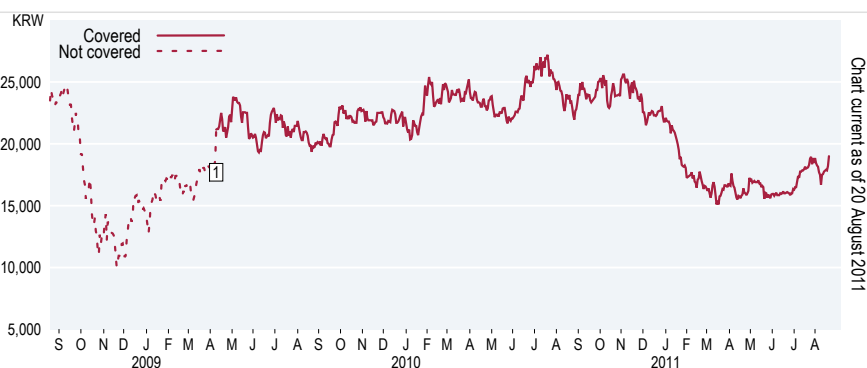


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	9-Apr-09	*1H	*30,000.00	21,150.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

WOONGJIN THINKBIG (095720.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Sean Lee, CFA
Covered since April 9 2009

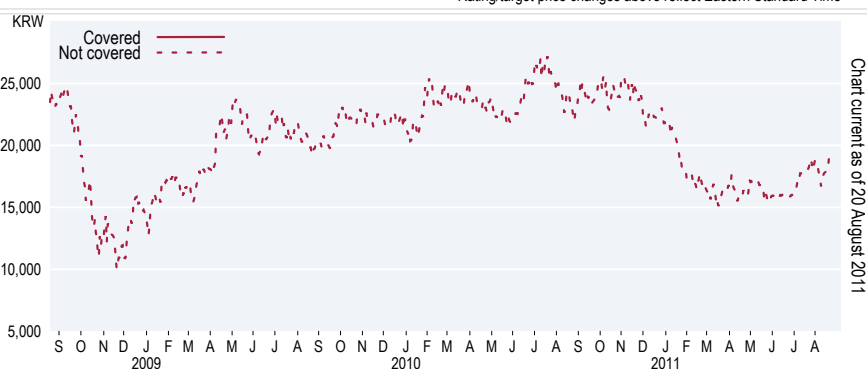


Chart current as of 20 August 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

KB Financial Group (105560.KS)

Ratings and Target Price History Fundamental Research

Analyst: Jinsang Kim
Covered since September 9 2009

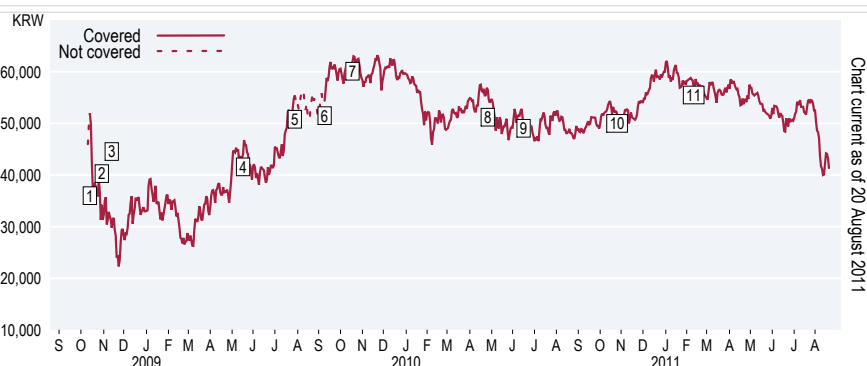


Chart current as of 20 August 2011

	Date	Rating	Target Price	Closing Price
1	14-Oct-08	*2L	*56,746.50	51,952.40
2	30-Oct-08	*2H	*42,070.68	34,243.58
3	13-Nov-08	2H	*36,200.36	29,791.91
4	18-May-09	*1M	*52,832.95	44,027.46

* Indicates change

	Date	Rating	Target Price	Closing Price
5	29-Jul-09	Coverage terminated		
6	9-Sep-09	*1L	*64,000.00	54,400.00
7	19-Oct-09	1L	*71,000.00	61,900.00
8	27-Apr-10	1L	*69,000.00	56,500.00

	Date	Rating	Target Price	Closing Price
9	16-Jun-10	1L	*63,000.00	49,750.00
10	26-Oct-10	1L	*65,000.00	51,800.00
11	10-Feb-11	1L	*67,000.00	57,000.00

Rating/target price changes above reflect Eastern Standard Time

KB Financial Group (105560.KS)

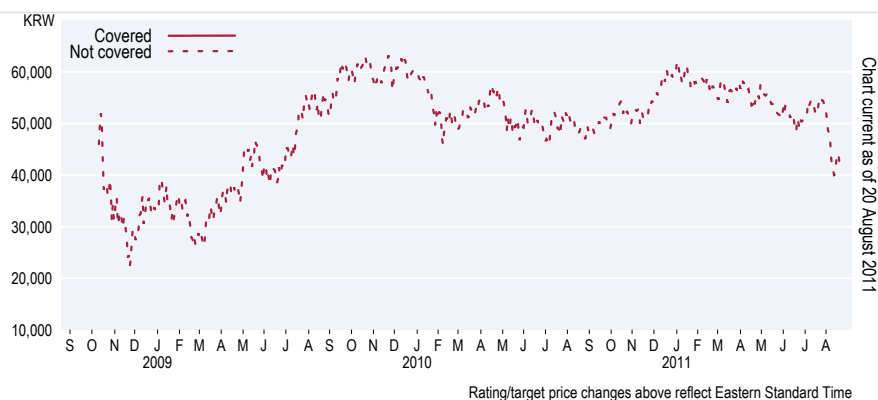
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jinsang Kim

Covered since September 9 2009



Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hyundai E&C. As at 30 Aug 11, CGMK holds 3,399,000 Citi ELW 1619, 3,495,110 Citi ELW 1777, 3,398,500 Citi ELW 1778 Call warrants & 2,242 shares of Hyundai E&C.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Samsung Elec. As at 30 Aug 11, CGMK holds 3,289,450,329,450 Citi ELW 1041, 2,879,900,290,290 Citi ELW 1096, 3,293,950,293,950 Citi ELW 1279, 3,186,540,318,550 Citi ELW 1280, 3,048,550,304,550 Citi ELW 1384, 3,350,000,350,000 Citi ELW 1419, 3,384,990,384,990 Citi ELW 1489, 3,303,440,330,440 Citi ELW 1522, 3,400,000,340,000 Citi ELW 1632, 2,632,690,263,690 Citi ELW 1171, 3,591,370,359,990 Citi ELW 1705, 3,363,610,363,610 Citi ELW 1706, 3,215,370,360,020 Citi ELW 1799, 3,513,930,512,430 Citi ELW 1800, 3,600,000,599,990 Citi ELW 1801, 3,310,000,310,000 Citi ELW 1802, 3,400,000 Citi ELW 1856, 3,600,000 Citi ELW 1857 Call warrants & 605505 shares of Samsung Elec.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hyundai Heavy Industry. As at 30 Aug 11, CGMK holds 3,331,150,331,150 Citi ELW 1176, 3,398,000,398,000 Citi ELW 1388, 3,399,990,399,990 Citi ELW 1421, 3,399,990,399,990 Citi ELW 1476, 1,647,450,1,648,450 Citi ELW 1492, 3,389,090,388,090 Citi ELW 1547, 3,368,740,368,730 Citi ELW 1636, 3,399,940,399,940 Citi ELW 1710, 2,894,840,298,370 Citi ELW 1731, 3,512,910,523,950 Citi ELW 1810, 3,276,030,327,300 Citi ELW 1811, 3,400,000 Citi ELW 1859, 3,600,000 Citi ELW 1860 Call warrants & 1,275,175 shares of Hyundai Heavy Industry.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is S-Oil. As at 30 Aug 11, CGMK holds 3,359,460,359,460 Citi ELW 1323, 3,342,160,342,150 Citi ELW 1392, 3,379,830,378,820 Citi ELW 1642, 3,399,000,399,000 Citi ELW 1714, 3,400,000 Citi ELW 1865, 3,600,000 Citi ELW 1866 Call warrants & 689689 shares of S-Oil

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is KT Corporation. As at 30 Aug 11, CGMK holds 3,400,000,340,000 Citi ELW 1648, 3,400,000,340,000 Citi ELW 1720, 1,374,980,1,374,980 Citi ELW 1423, 3,399,990,399,990 Citi ELW 1827, 3,400,000 Citi ELW 1871 Call warrants & 33,170,900 shares of KT Corporation.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Woori Finance. As at 30 Aug 11, CGMK holds 3,339,650 Citi ELW 1342, 3,599,990 Citi ELW 1726, 3,371,580 Citi ELW 1835, 3,599,680 Citi ELW 1836 Call warrants & 2,331 shares of Woori Finance.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Shinhan Finance. As at 30 Aug 11, CGMK holds 3,195,540,319,540 Citi ELW 1406, 3,333,850,333,850 Citi ELW 1550, 3,400,000,340,000 Citi ELW 1587, 3,394,500,394,500 Citi ELW 1837 Call warrants & 4,556,560 shares of Shinhan Finance.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is LG Elec. As at 30 Aug 11, CGMK holds 2,312,030,231,030 Citi ELW 1344, 2,438,510,243,510 Citi ELW 1407, 2,521,110,251,110 Citi ELW 1427, 3,390,000,390,000 Citi ELW 1482, 3,597,930,359,930 Citi ELW 1498, 3,374,980,374,980 Citi ELW 1499, 3,584,450,358,450 Citi ELW 1529, 2,462,780,246,780 Citi ELW 1588, 3,410,840,341,840 Citi ELW 1656, 2,397,090,239,090 Citi ELW 1657, 2,815,890,281,890 Citi ELW 1735, 1,938,040,1,938,040 Citi ELW 1838, 3,279,390,328,970 Citi ELW 1839, 3,400,000 Citi ELW 1880, 3,600,000 Citi ELW 1881 Call warrants & 18,976,260 shares of LG Elec.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is KB Financial Group. As at 30 Aug 11, CGMK holds 3,398,500 Citi ELW 1409, 2,673,410 Citi ELW 1429, 3,399,990 Citi ELW 1484, 2,018,600 Citi ELW 1551, 3,400,000 Citi ELW 1736, 3,496,280 Citi ELW 1843, 3,399,900 Citi ELW 1844 Call warrants & 13,364 shares of KB Financial Group. Citigroup Global Markets acted as joint bookrunner and placing agent to Kookmin Bank's placement of secondary shares in KB Financial Group.

DMBH is a market maker in the publicly traded equity securities of Bank Pekao SA. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30 June 2011 is as follows: Buy (1) representing 30% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 36% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 34% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30 June 2011 is as follows: Buy (1) representing 30% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 36% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 34% of the DMBH coverage 0% of which are IB clients.

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

DMBH is a market maker in the publicly traded equity securities of PZU. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30 June 2011 is as follows: Buy (1) representing 30% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 36% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 34% of the DMBH coverage 0% of which are IB clients. Michal Fidelus, Assistant, holds a long position in the shares of Powszechny Zaklad Ubezpieczen SA.

Citigroup Global Markets Limited is currently mandated as an advisor to Sberbank in relation to acquiring Volksbank International from its shareholders. Consequently, Citi is restricted from offering any view, opinion, rating or target price on Sberbank.

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Rhys D Summerton, Analyst, holds a long position in the securities of Standard Bank Group.

Dilya Ibragimova, Associate, holds a long position in the securities of Gazprom.

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Holdings, Shinhan Financial Group, LG Electronics, CNOOC, Anhui Conch Cement, China Construction Bank, China Mobile, WOONGJIN THINKBIG, KB Financial Group, China Railway Construction, Agricultural Bank of China, Nan Ya Plastics, UMC, Hon Hai Precision, Mengniu Dairy, Quanta Computer, China Oilfield Services, Far Eastern Department Store, Parkson, AmBev, Advanced Info, Arcelik AS, Credicorp, Bank Pekao SA, Komerční Banka as, Budimex SA, CEZ, TAC, ENTEL Chile SA, Endesa Chile, Gazprom, Gafisa, S.A., Globe Telecom, Itaú Unibanco, Kasikornbank, Lojas Renner, Mahindra & Mahindra, Maybank, Novatek OAO, Petróleo Brasileiro - Petrobras, PETRONAS Chemicals Group, PDG Realty, SA, Pick'n Pay Stores, X5 Retail Group, PTT Aromatics & Refining, PZU, State Bank of India, Standard Bank Group, Sberbank RF, Steinhoff International Holdings Ltd, Telefonica O2 Czech Republic, Star Publications, TISCO Financial Group, Telkom, PT Telkom, Tofas, Telekomunikacja Polska SA, CTEEP, Tupras AS, UMW Holdings, Urbi Desarrollos Urbanos, SAB de CV, Vale, Wipro.

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<i>Data current as of 30 Jun 2011</i>	12 Month Rating			Relative Rating		
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% of companies in each rating category that are investment banking clients	45%	41%	42%	50%	42%	44%

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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