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Strategy
Western Europe

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The 7Rs — Key Themes for the New Regime

- **Regime #1 & #2** — There have been two macro and financial market regimes in the past 10 years. Regime #1 = 2003-07. Regime #2 = 2008-12. Regime #1 = de-equitisation arb + low macro risk = leverage boom and value leadership. Regime #2 = de-equitisation arb + high macro risk = de-leveraging and quality leadership.

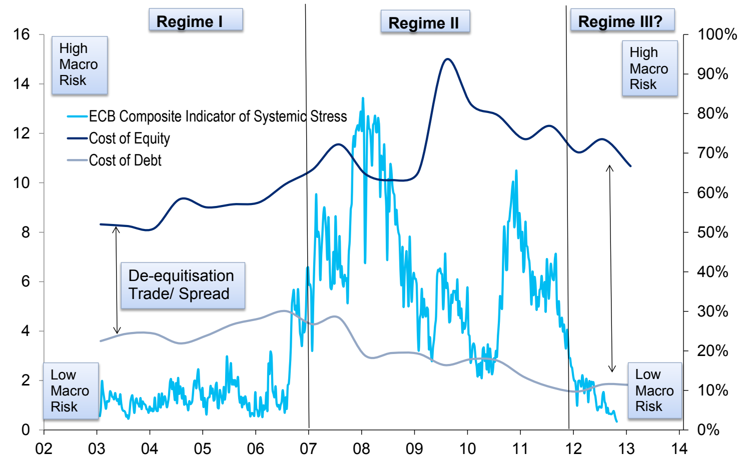
- **Regime #3** — We have argued that 2013 = start of a new regime. Macro risks have fallen sharply and the de-equitisation arb remains wide. This suggests similarity with Regime #1 and that "stuff" should happen including general re-risking trends, eg flows. But, less growth and should be less leverage than 2003-07 in Regime #3.

- **Normalisation** — World = abnormal levels of debt vs abnormal policy response. We expect progressive normalisation, eg debt, flows, rates/tapering. This forms backdrop for Regime #3, as does our "Goldilocks in a Strait-Jacket" view of the world. New Goldilocks could last longer than Old Goldilocks. Discuss…

- **Style leadership** — Value = main beneficiary of leverage boom, 2003-07. Quality = main beneficiary of 'de-leveraging', 2008-12. Recent compression between cheap/expensive stocks suggests that earnings momentum = key style in next 1-2 years. We add REV and combo of surplus FCF & strong balance sheets to that.

- **The 7Rs** — We backed "Restructuring & Re-rating" as our 2 key themes at the end of 2012. We think the following investment themes are the key ones for investors to focus on in Regime #3: 1) Restructuring, 2) Recovery, 3) Re-risking, 4) Re-leveraging, 5) Re-rating, 6) Returns, and 7) Regulation. Play the tape…

Figure 1. Low Macro Risk + De-equitisation Arbitrage = Stuff Will Happen



Source: Citi Research, Bloomberg, ECB

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3rd Oct — If…*
19th Sep — Bull Market
16th Sep — REV It Up
12th Sep — Roadshow Highlights
5th Sep — Rerating,Restructure,Recovery
29th Aug — European Recovery
1st Aug — DG vs Fins vs Offensives

The 7Rs — Key Themes for the New Regime

There have been two clear regimes in financial markets in the last 10-years — 2003-07, 2008-12. We think 2013 marks the beginning of a third regime; one which we expect to be characterised by 'Normalisation' and a return of 'animal spirits', as we wrote about at the start of this year.

The first regime, 2003-07, was characterised by low macro risk, leverage and plenty of corporate action; within equity markets value enjoyed an extended period of outperformance.

This was followed by a multi-year period, 2008-12, of high macro risk, de-leveraging (both attempted and real) and low levels of corporate action; within equity markets quality enjoyed an extended period of outperformance.

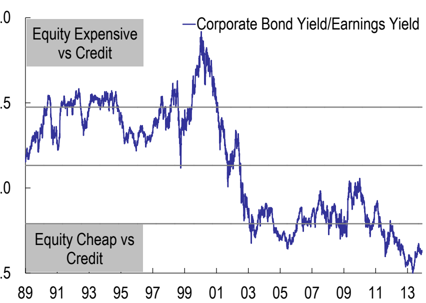
Now, we argue that (cyclical) macro risks have reduced and that, once again, there are signs of (selective) re-leveraging. We see elements of both previous regimes being relevant in the new regime, i.e. pick-up in corporate leverage/activity but with modest economic growth backdrop. What does this new regime mean for equity investors? We suggest that investors consider what 'normalisation' means for them and focus on the following 7 key themes — the 7Rs: 1) Restructuring, 2) Recovery, 3) Re-risking, 4) Re-leveraging, 5) Re-rating, 6) Returns, and 7) Regulation.

Regime change — 1, 2, 3…

Two variables have had a dominant influence on behaviour and financial asset prices over the past 10 years — level of macro risk and level of funding. These variables have shaped the market regimes of the past 10 years. They should continue to shape the market in the coming years.

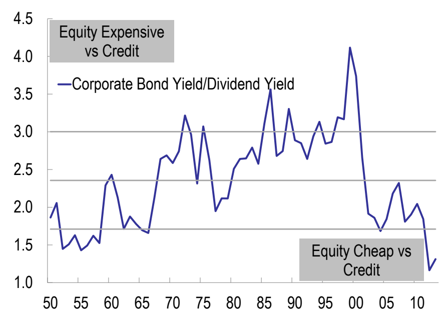
There has been one constant in the last decade and one theme which we have consistently written about. This relates to the decade long gap between the cost of debt and cost of equity funding. This funding arbitrage is the foundation of our longest-running strategy theme — de-equitisation[1].

Figure 2. Corp Bond Yield / Earnings Yield



Source: DataStream & Citi Research

Figure 3. Corp Bond Yield / Dividend Yield



Source: DataStream & Citi Research

Figure 2 and Figure 3 compare corporate bond yields to European earnings yields and dividend yields respectively. Both charts suggest that equity continues to look super-cheap relative to credit and that the de-equitisation gap between the cost of debt and equity funding remains super-wide. Arguably, this is the most compelling arbitrage in financial markets. Roll up…

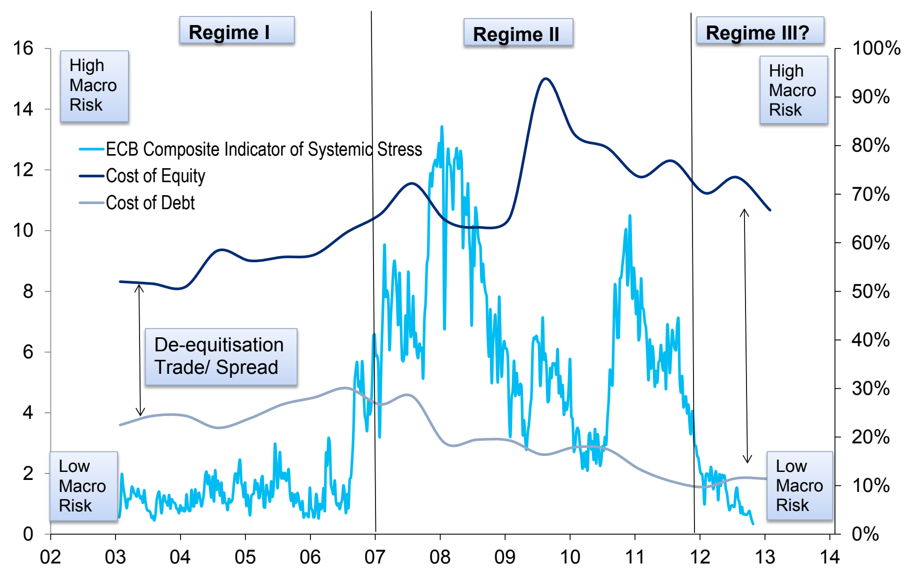
[1] De-equitisation- A New Theme, 18 July, 2003

The debt/equity funding gap influenced behaviour between 2003-07. It was the basis for the leverage boom. But, it was the combination of the funding gap and low (or the perception of low) macro risk which drove the behaviour of corporates, corporate predators and investors. The LBO and M&A booms of 2003-07 are testament to the overlap of these two powerful influences. More broadly, this period also saw the aggressive leveraging up of the global economy.

The debt/equity funding gap has persisted over the last few years. However, there has been a very different macro backdrop post-financial crisis compared to pre-financial crisis. High macro risk and high starting levels of leverage have prevented behaviour which dominated in the earlier regime. Against a backdrop of multi-year de-leveraging, real or attempted, re-leveraging has been more selective.

However, where re-leveraging, or de-equitisation, has occurred it has had a significant and enduring impact. This has most consistently taken place in the US, not in Europe, through share buybacks. Our US strategy colleague, Tobias Levkovich, regularly writes about the US "share shrinkers". Investors who have been exposed to this theme over the past 4-5 years would have enjoyed excellent relative performance in the world's best performing equity market during this period. So, de-equitisation has worked, but has been more selective than in 2003-07.

Figure 4. Low Macro Risk + De-equitisation Arbitrage = Stuff Will Happen



Source: Citi Research, Bloomberg, ECB
Cost of equity = Risk-free rate + Beta * Country Risk Premium. Cost of debt is calculated by using government bond yields, debt adjustment factor and proportion of short term and long term debt to total debt

Figure 4 brings together the two key variables we have been discussing — level of macro risk and level of funding. We show the ECB's composite indicator of systemic stress to represent the level of macro risk. We show the implied cost of debt and cost of equity for c350 European companies, backed out of WACCs using Bloomberg data. This represents the debt/equity funding arbitrage which is the basis of the de-equitisation trade.

This clearly shows why 2003-07 and 2008-12 have been very different. Despite a similar funding arbitrage, behaviour from key decision makers has been very different in two very different macro regimes — low risk and high risk.

New regime = normalisation & Goldilocks in a strait-jacket

Where are we now? Figure 4 suggests that we have returned to 2003-07 conditions, on this basis, ie attractive funding arb. and low macro risk. This suggests that we should expect to see behaviour similar to 2003-07. Similar, but different, we think.

History rhymes rather than repeats. For example, just as Vodafone was once discussed as a potential LBO candidate before the credit crisis of 2007-08, recent corporate action involving Vodafone shows how elements of the 2003-07 regime have made a return to 2013 financial markets, notably how Verizon (instead of private equity this time) was able to raise significant funding for a significant deal.

Importantly, total debt levels are still extremely high across many economies. So the capacity for economy-wide growth-boosting re-leveraging is not high. This means that any re-leveraging in this new regime is likely to be more selective and restricted to those groups which have strong balance sheets to start with. The corporate sector with a combination of healthy free cash flow and robust balance sheets is one group that has already started re-leveraging.

We have argued in the past 12-18 months that we have entered a new regime; one based around our concept of normalisation. The origin of the financial crisis was largely the result of abnormal levels of debt. This has forces an abnormal response from policy makers, ie QE and beyond.

In terms of macro risk, 2008-12 have also been abnormal years, as reflected by the ECB's systemic stress indicator. There has been clear evidence of normalisation here and in other areas in the past year or so. For example, global PMIs, US/Irish private sector debt, European banks' capital and the US fiscal deficit have all shown elements of normalisation.

We think normalisation is likely to continue and should extend to interest rates, capital allocation and to relative valuations between asset classes. There is evidence in these three areas that normalisation is also underway — tapering, flow to equity, re-rating of equity. But, we think that these are the beginnings of new trends rather than the ends.

Investors also need to think about how long this new regime could last. Not many crystal balls tell you the answer to that one. However, we continue to subscribe to our "Goldilocks in a strait-jacket" view of the world. Old Goldilocks was a high growth/low inflation/modest rates mix. New Goldilocks is modest growth/low inflation/low rates, with growth in New Goldilocks strait-jacketed by policy actions (floor) and debt levels/de-leveraging (ceiling). We continue to argue that New Goldilocks is supportive of modest profit growth, share prices and risk. To us, New Goldilocks could last longer than Old Goldilocks.

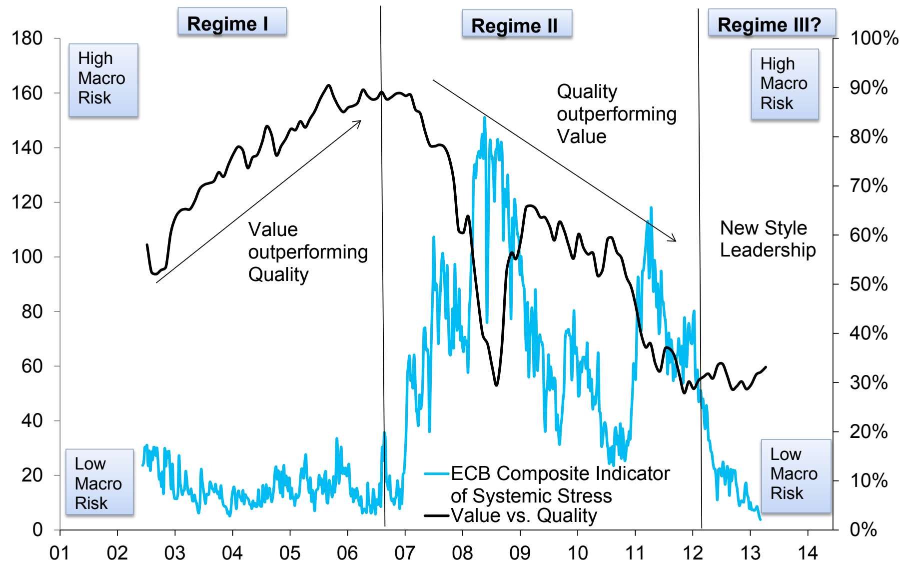
Citi economists expect this era of modest growth, low inflation and low rates to extend in the next few years. The US and UK are more likely to raise interest rates ahead of the Euro Area and Japan, but the shift to higher interest rates is likely to be a slow one, given enduring headwinds from the high stock of debt across economies.

Styles in the new regime

This framework also explains why we have seen two very different leadership groups within equity markets in two periods of 100%+ index gains = value leadership, 2003-07 vs quality leadership, 2008-12. Both, in effect, were the relative re-leveraging trade of their respective regimes.

Between 2003-07, it was low quality and cheap stocks which were the biggest beneficiaries of aggressive corporate and economy-wide re-leveraging (Figure 5). Levered returns and levered growth led the market. For examples, banks with low Return on Assets achieved high Return on Equity thanks to a lot of leverage; this also drove strong performance of their share prices.

Figure 5. Macro Regime vs. Style Regime



Source: Citi Research, Factset, ECB

Between 2008-12, it was quality which was the relative re-leveraging trade within equity markets by virtue of not being effected by the various de-leveraging attempts across the global economy. For example, in a world of little growth, Defensive Growth was ‘the only growth trade in town’ for several years and the default relative re-leveraging trade as well.

That, of course, has changed this year with the inflection of European financial earnings and an improving growth outlook in Europe and the world economy. Both have combined to make Defensive Growth redundant as a relative leadership theme, in our view, although we think that it remains a strong investment theme for non-benchmarked absolute return investors.

So, if we are in a new regime, is there going to be a clear style leader like there was in the previous regimes? There has certainly been a lot of style rotation in the last few months with strong performance from value and risk, at the expense of earnings momentum and quality.

Given the compression in valuation between cheap and expensive, which has occurred, we would expect an earnings momentum strategy to perform well in the coming 12-18 months, and indeed generally to the end of this current cycle.

We have written recently how this earnings leadership group has evolved over the past 6-12 months with European financials a core part of this group now, having not been a year ago.

Additionally, we see normalisation allowing a high equity risk premium and high cost of equity in some sectors, such as Financials, to potentially reduce over the next couple of years. As our recent analysis of styles within Europe showed, it is risk

which looks most attractive on a valuation basis when compared with value itself and quality. Against a backdrop of improving economic growth in Europe and normalisation more broadly, this is why we like to combine Risk and Earnings Momentum in our REV theme.

Beyond this, we can also see conditions for extended strong performance from companies and sectors which offer a combination of surplus FCF and strong balance sheets. Such stocks and sectors have significant optionality to support bigger pay-outs to investors, to self-fund equity retiral or other investment and the strong balance sheet should provide support and opportunity in equal measure; support if macro risks do rise sharply and opportunity for CEOs to run a slightly more aggressive funding position should macro risks remain muted.

Key investment themes — the 7Rs

We have run through why we think we are in a new regime for investors. A combination of reduced macro risk and significant debt/equity funding gap suggest that we should see a return of elements of behaviour from 2003-07. But, it is always different. We identify seven key investment themes which investors should focus on in this context, fortunately all of them begin with the letter ‘R’: 1) Restructuring, 2) Recovery, 3) Re-risking, 4) Re-leveraging, 5) Re-rating, 6) Returns, 7) Regulation.

R#1 = Restructuring

Restructuring has been a key macro and micro theme already over the last few years. Restructuring across many European countries has led to some much needed improvements in competitiveness and healthier current account balances. For example, Spain and Ireland have done well on both counts.

Restructuring has also been necessary across much of the financial system, including the Banks. This has been a key support in the turnaround or European bank earnings and returns over the past 12-months. Ronit Ghose, Kinner Lakhani and are banks team have featured restructuring as one of their core themes. The same is true in European Insurance, where Farooq Hanif and team regularly argue the importance of restructuring to the bull case for their sector. Restructuring is one of the key reasons why we are Overweight both European Banks and Insurance.

With low levels of economic growth on offer to corporates, self-help and both operational and financial restructuring has been a key driver of enhanced profitability, returns and share prices for many companies over the past couple of years.

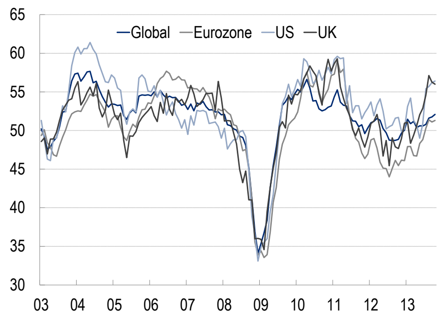
Our 2013 market outlook report was titled “Staying Bullish — Restructuring & Re-rating”. Corporate restructuring has been a key theme for us in the past year and many of the Citi Europe Focus List Stocks have restructuring as a key part of their investment case, such as Aviva, AXA, Barclays, ING, Linde, Kering, Novartis, Renault, Rio Tinto, Siemens.

R#2 = Recovery

The European and global economic outlook is improving. That is what our economists tell us and that is what economic data tells us. Whether the improving macro environment can be classified as a proper recovery is a different debate. The answer is probably not.

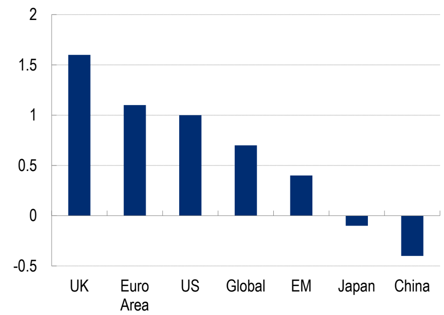
Nevertheless, Europe is out of recession and that is good news. The GDP growth delta comparing 2014E to 2013E is c1%, based on Citi economic forecasts for the Euro Area and a little less for global growth. Improving, but no strong recovery. Historically, the GDP growth delta is closer to 3-5% in Year 1 of a recovery so we are a long way from that.

Figure 6. PMI — Recovery



Source: Haver

Figure 7. GDP Growth Delta (%, 2014E-2013E)

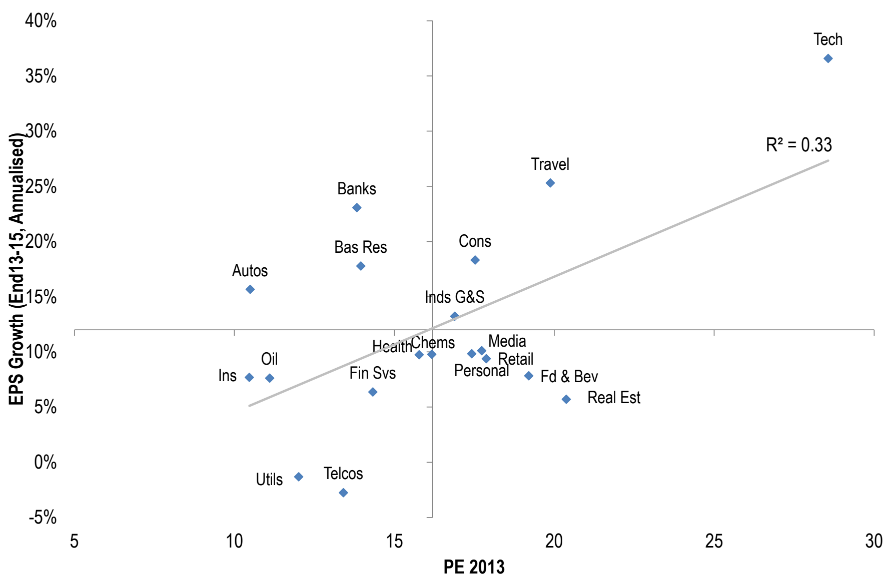


Source: Citi Research

Within equity markets, recovery trades have been important this year, especially in the last few months. In July we highlighted 6 key recovery trades: 1) US recovery, 2) Financials, 3) selective domestic recovery, 4) selective UK recovery, 5) deep value, and 6) quant sensitivity (to rising GDP).

The prospects of European economic growth and European earnings growth will play a key role in the performance of European equities in 2014-15 and in defining the leadership groups within the market. For example, given the recent re-rating of European equities, it is hard to see significant gains in 2014-15 without contribution from earnings growth. Top-down we expect earnings growth of c10% in 2014E.

Figure 8. European Sector — EPS Growth vs P/E 2013



Source: Datastream & Citi Research

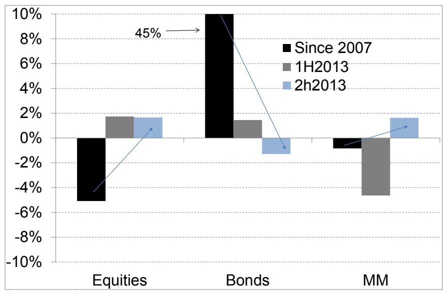
Our most recent analysis suggests that the new earnings leadership group will contain more cyclicals and financials and less defensives than previously.

R#3 = Re-risking

Re-risking is a key theme for us. Think about what has happened in the last 12-18 months. Macro risks have reduced, eg see ECB chart, peripheral bond yields. This has led to a synchronised pick-up in risk appetite from four key 'economic' groups:1) capital allocators, 2) corporates, 3) investors, and 4) consumers.

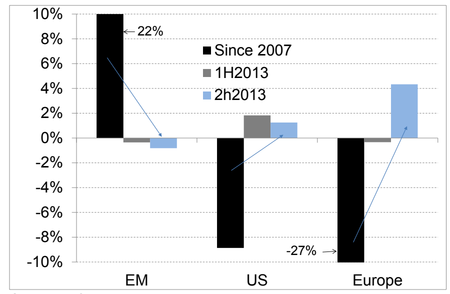
Capital allocators have started buying equity after a multi-year absence, ie capital allocation is starting to normalize, with equities looking historically cheap relative to other asset classes.

Figure 9. Flows By Asset Class (%AUM)



Source: Citi Research, EPFR

Figure 10. Flows By Region (%AUM)



Source: Citi Research, EPFR

Corporates are exhibiting early signs of less defensive behaviour. This is most visible in the US where in addition to strong capital returns from buybacks and dividends, there has been a pick-up in M&A activity over the past few quarters.

Investors, in both fixed income and equity, have had to move up the risk curve in 2013 to compete with benchmarks. High yield credit and financial equity in Europe have been amongst the performance leaders YTD, for example.

There is also some evidence that consumers are starting to spend more freely once again. This is not widespread yet, but there has been a pick-up in consumption in countries such as the UK and the US. In the UK, Michael Saunders, our UK economist, discusses the release of pent-up demand for car and house purchases as driving the recovery in those markets.

These four key economic groups have seen a synchonised pick-up in risk appetite in the last 12-18 months. We see this as the start of some new trends at an economic level and across financial markets. These new trends are unlikely to be broken unless there is a significant change in the economic environment. Most notably this could come about by: 1) a sharp rise in interest rates, 2) a 2007 style end to the credit cycle, or 3) a fresh global recession. We think all three outcomes are unlikely in the next couple of years.

R#4 = Re-leveraging

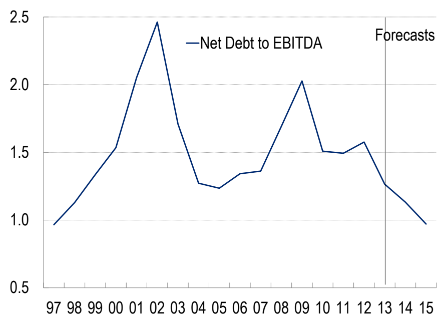
Ahead of the financial crisis in 2008-09, there was a consistent leveraging up of most parts of the world. From subprime in the US to the Irish economy, few places did not take part in the Great Re-leveraging. Since then, there has been real or attempted de-leveraging in different parts of different economies. For example, there has been de-leveraging from the US, UK, Irish and Spanish private sector and from European banks. Governments in many countries have applied the brakes, but have often only succeeded, for now, in slowing the rise in debt/GDP of the public purse. De-leveraging still lies ahead here.

What this means is that different parts of different economies still face very different pressures from debt levels and therefore also face very different opportunities from the counter-balance to high levels of indebtedness, ie low interest rates.

Low interest rates are needed to protect the weak, but will likely continue to provide opportunity for the strong or the recently de-levered.

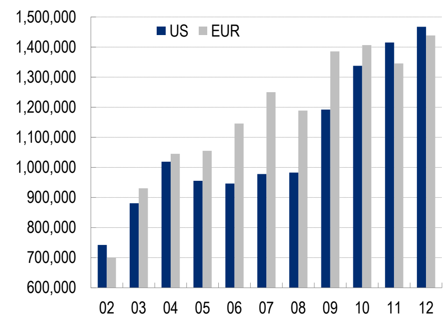
The corporate sector was quick to repair balance sheets, on the whole, following the financial crisis. There is evidence that parts of the listed corporate sector have already been re-leveraging for the past couple of years. This is a point made by Jason Shoup, Citi US credit strategist, "for much of the past 3 years, bondholders have been willing participants in the re-leveraging of corporate America."

Figure 11. Europe Net Debt to EBITDA



Source: Citi Research & DataStream

Figure 12. Cash on Balance Sheet (US$mn)



Source: Factset

European companies have also been re-leveraging, but at a more modest pace than their US counterparts, largely due to a weaker domestic economic environment. But, strong cash positions and robust balance sheets suggest that the re-leveraging potential of the European corporate sector could be significant. In a world of still modest top-line growth opportunities, more CEOs may turn to their balance sheet to boost returns. This would be a familiar story…

R#5 = Re-rating

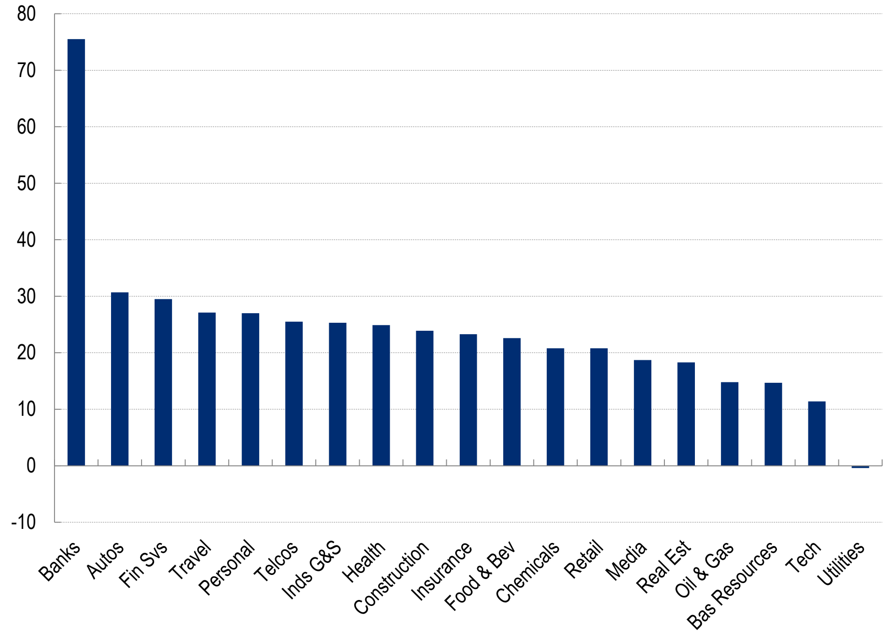
Re-rating has been one of our core market themes over the past couple of years. We have consistently argued for a re-rating since late-2011. In October 2012, we argued that the re-rating would be driven by four forces: 1) lower macro risk, 2) lower equity risk premium, 3) nearing earnings trough, and 4) higher appetite for equity.

European equities now trade around 40-50 year average P/E levels, although look cheaper on a CAPE basis. This suggests that equities are neither expensive nor cheap and that good news or earnings growth will be important if future returns are to be positive. We expect an improving macro backdrop to drive c10% earnings growth from European companies in 2014E. We also expect a further re-rating of equities to be driven by increasing demand for equities, i.e. flow.

R#6 = Returns

Capital returns have been one of the most important themes for investors over the past few years. Income, rather than pure dividend yield, strategies have done well in Europe and in the rest of the world. In the US, as already discussed, buyback or 'share shrinker' strategies have also done well. Essentially, companies with surplus FCF, which have been able to consistently distribute capital to shareholders, have tended to do well in the post-financial crisis era.

Figure 13. European Sectors DY*G



Source: Citi Research

Returns are likely to remain a key investment theme for equity and multi-asset investors in the next couple of years. Companies that offer a strong combination of income and income growth should continue to do well. We score companies/sectors on a DY*G basis to see which fit the bill. Currently, European banks have 2x the DY*G score of the next closest sector, using current DY and 2-year forward dividend CAGR. This suggests that banks are going to be the most important capital return sector in the coming couple of years. Interesting.

R#7 = Regulation

Our last ‘R’ is regulation. This is a key dynamic in many of the big sectors in the equity market — Banks, Insurance, Utilities, Health Care, Telecoms are the best examples and our sector teams have written extensively on these issues.

Strategy outlook

Two regimes since 2003. Regime #1 = 2003-07. Low macro risk & de-equitisation arb = leverage boom. In equities, value led. Regime #2 = 2008-12. De-equitisation arb, but macro risk/debt high = de- not re-leveraging. In equities, quality led. Now in Regime #3 = 2013-??. Low macro risk & de-equitisation trade again = stuff will happen. Investors should think about what normalisation means and focus on the 7Rs (Restructuring, Re-risking, Re-lev., Recovery, Re-rating, Returns, Regulation).

Figure 14. Regime Change Check List

Factors	Regime I	Regime II	Regime III
Macro Risks	Low	High	Low*
De-equitisation Spread	Wide	Wider	Wider
Corporate Actions	M&A, LBOs, Buyback boom	Little, except US buybacks	Animal spirits returning
GDP	High, growing	Low/no	Modest
CPI	Modest	Slow	Slow
Style	Value	Quality	REV, FCF+BS, Earnings Mo
Interest Rates	Mid	Low + QE	Low + Tapering
Credit Spreads	Low	High	Low
Equity Flows	Modest	Big outflows	Inflows
Bond Flows	Modest	Massive inflows	Outflows

Source: Citi Research; *Macro risks are low in Regime III on the ECB systemic stress indicator, although we would highlight that macro risks are still high based on total debt levels in many economies. It is cyclical macro risks which we think have fallen sharply, eg European banks capital position is much improved.

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Valuation Tables

Figure 15. Pan-European Sector Weightings & Returns

As at Close 26 Nov 13	Mkt Cap	% of	Return Relative to DJ Stoxx				Absolute Return			
Sector (No of Stocks)	**(Euros m)**	**Stoxx**	**1m**	**3m**	**12m**	**Ytd**	**1m**	**3m**	**12m**	**Ytd**
Oil & Gas (32)	526,442	7.9	0	-1	-13	-10	1	5	6	6
Chemicals (25)	331,713	5.0	1	-2	-3	-4	2	4	18	14
Basic Resources (22)	216,658	3.3	-5	-6	-23	-27	-5	0	-6	-13
Construction & Materials (21)	149,616	2.3	0	3	9	3	0	9	33	22
Industrial G&S (105)	727,812	11.0	0	0	4	3	1	6	26	22
Automobiles & Parts (14)	199,679	3.0	3	4	23	17	4	10	50	38
Food & Beverage (29)	540,878	8.2	0	-4	-10	-7	0	2	10	10
Personal & H'hold Goods (30)	384,671	5.8	0	-3	-4	-2	1	3	17	16
Health Care (34)	750,384	11.3	2	-3	2	3	3	3	25	22
Retail (28)	225,451	3.4	-1	0	4	4	0	6	27	23
Media (26)	166,546	2.5	0	4	13	13	1	11	38	34
Travel & Leisure (21)	95,589	1.4	2	-1	4	4	3	5	27	24
Telecommunications (23)	350,900	5.3	1	10	10	13	1	17	34	34
Utilities (26)	268,059	4.0	0	2	-5	-5	1	8	15	13
Banks (47)	867,201	13.1	-2	0	3	1	-1	6	25	20
Insurance (35)	417,292	6.3	1	2	10	8	1	9	34	28
Real Estate (26)	88,573	1.3	-2	1	-6	-8	-1	7	14	10
Financial Services (32)	105,323	1.6	-2	2	15	11	-1	8	40	31
Technology (24)	223,367	3.4	4	3	8	6	5	9	32	26
Stoxx - Pan Europe (600)	6,636,155	100.0	—	—	—	—	1	6	22	18
Pan Euro - Large Cap	5,370,961	80.9	0	0	-1	-1	1	6	21	18
Pan Euro - Mid Cap	868,097	13.1	0	-1	4	3	1	6	27	22
Pan Euro - Small Cap	397,097	6.0	0	1	4	3	0	7	27	22
Stoxx ex UK - Europe ex UK (415)	4,470,393	67.4	—	—	—	—	1	7	25	21
EuroStoxx - Eurozone (292)	3,055,745	46.0	—	—	—	—	1	8	27	22

Source: Citi Research & DataStream

Figure 16. Pan-European Sector Relative Ratings

As at Close 26 Nov 13	P/E Relative to DJ Stoxx				Yield Relative to DJ Stoxx			
Sector	**2012**	**2013E**	**2014E**	**2015E**	**2012**	**2013E**	**2014E**	**2015E**
Oil & Gas	62	75	75	80	136	134	128	120
Chemicals	105	109	116	113	80	78	79	77
Basic Resources	84	90	86	88	113	102	99	95
Construction & Materials	108	118	112	106	93	94	94	92
Industrial Goods & Services	110	113	111	111	80	82	83	83
Automobiles & Parts	64	75	73	70	83	84	87	87
Food & Beverage	126	127	134	136	82	85	86	83
Personal & H'hold Goods	121	119	121	121	77	81	82	83
Health Care	100	108	110	110	93	92	92	91
Retail	116	121	121	124	89	86	86	84
Media	106	117	119	120	113	100	99	95
Travel & Leisure	144	137	118	108	72	65	68	70
Telecommunications	88	91	117	128	135	143	138	134
Utilities	74	80	99	104	185	163	148	138
Banks	129	94	81	75	98	107	114	134
Insurance	81	71	73	76	112	116	115	110
Real Estate	138	133	142	148	122	121	119	111
Financial Services	126	96	106	105	106	99	102	100
Technology	255	202	137	133	56	44	45	44
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	94	95	97	98	103	104	103	104
Pan Euro - Mid Cap	127	125	114	110	89	83	86	84
Pan Euro - Small Cap	190	132	118	110	87	83	85	84
Stoxx ex UK - Europe ex UK	108	104	102	100	97	97	97	97
Stoxx Eurozone - Eurozone	107	103	99	97	99	98	97	97

Source: Citi Research & DataStream

Figure 17. Pan-European Sector Growth

As at Close 26 Nov 13	Earnings Growth %			Net Dividend Growth %		
Sector	**2013E**	**2014E**	**2015E**	**2013E**	**2014E**	**2015E**
Oil & Gas	-15.4	12.4	4.0	1.3	2.8	4.0
Chemicals	-0.8	5.8	13.9	1.1	7.6	8.8
Basic Resources	-4.5	17.4	8.5	-6.7	3.5	6.2
Construction & Materials	-5.2	18.2	17.1	4.4	7.1	8.4
Industrial Goods & Services	0.1	14.0	11.5	5.0	8.9	10.0
Automobiles & Parts	-12.0	15.2	15.8	3.7	10.6	12.0
Food & Beverage	2.0	6.8	9.1	6.1	8.2	7.9
Personal & H'hold Goods	4.7	10.8	10.9	9.3	8.1	12.1
Health Care	-4.4	9.7	11.5	1.7	7.2	9.6
Retail	-0.9	12.3	8.2	0.0	7.1	7.9
Media	-7.2	10.3	10.3	-9.2	6.7	5.9
Travel & Leisure	8.6	29.8	21.7	-7.0	12.4	14.3
Telecommunications	-0.5	-12.6	1.2	9.3	3.3	7.3
Utilities	-4.9	-9.5	5.3	-9.7	-2.3	3.4
Banks	40.5	30.8	19.8	12.2	14.1	30.2
Insurance	17.1	9.5	6.6	6.7	6.5	5.5
Real Estate	6.5	5.4	6.2	2.3	5.2	4.0
Financial Services	34.3	2.0	12.2	-3.4	9.6	9.3
Technology	29.7	65.6	14.6	-18.7	8.0	10.0
Stoxx - Pan Europe	2.8	12.4	11.0	2.8	7.0	11.0
Pan Euro - Large Cap	1.0	10.4	10.0	4.2	6.3	11.3
Pan Euro - Mid Cap	4.5	22.9	15.5	-4.8	11.3	9.0
Pan Euro - Small Cap	48.0	26.0	19.2	-2.4	9.6	10.0
Stoxx ex UK - Europe ex UK	6.4	15.3	12.9	2.8	6.4	11.9
Stoxx Eurozone - Eurozone	6.6	16.7	12.9	2.0	5.5	11.5

Source: Citi Research & DataStream

Figure 18. Pan-European Sector Ratings

As at Close 26 Nov 13	Price/Earnings				Net Dividend Yield			
Sector	**2012**	**2013E**	**2014E**	**2015E**	**2012**	**2013E**	**2014E**	**2015E**
Oil & Gas	9.5	11.3	10.0	9.6	4.42	4.48	4.60	4.79
Chemicals	16.3	16.4	15.5	13.6	2.60	2.63	2.83	3.08
Basic Resources	12.9	13.5	11.5	10.6	3.68	3.43	3.55	3.77
Construction & Materials	16.8	17.7	15.0	12.8	3.02	3.15	3.38	3.66
Industrial Goods & Services	17.0	17.0	14.9	13.4	2.61	2.74	2.99	3.29
Automobiles & Parts	9.9	11.2	9.7	8.4	2.71	2.81	3.11	3.48
Food & Beverage	19.5	19.1	17.9	16.4	2.68	2.84	3.08	3.32
Personal & H'hold Goods	18.8	17.9	16.2	14.6	2.50	2.73	2.95	3.31
Health Care	15.5	16.2	14.8	13.2	3.04	3.09	3.32	3.63
Retail	18.0	18.1	16.1	14.9	2.89	2.89	3.09	3.34
Media	16.3	17.6	16.0	14.5	3.68	3.34	3.56	3.77
Travel & Leisure	22.3	20.5	15.8	13.0	2.34	2.17	2.44	2.79
Telecommunications	13.6	13.7	15.6	15.5	4.39	4.80	4.96	5.32
Utilities	11.4	12.0	13.2	12.6	6.03	5.45	5.32	5.50
Banks	20.0	14.2	10.9	9.1	3.20	3.58	4.09	5.33
Insurance	12.6	10.7	9.8	9.2	3.64	3.88	4.13	4.36
Real Estate	21.3	20.0	19.0	17.9	3.96	4.05	4.26	4.44
Financial Services	19.4	14.5	14.2	12.6	3.44	3.32	3.64	3.98
Technology	39.4	30.4	18.3	16.0	1.82	1.48	1.60	1.76
Stoxx - Pan Europe	15.5	15.0	13.4	12.0	3.26	3.35	3.58	3.98
Pan Euro - Large Cap	14.5	14.3	13.0	11.8	3.35	3.49	3.71	4.13
Pan Euro - Mid Cap	19.6	18.8	15.3	13.2	2.90	2.76	3.08	3.35
Pan Euro - Small Cap	29.4	19.9	15.8	13.2	2.84	2.78	3.04	3.35
Stoxx ex UK - Europe ex UK	16.7	15.7	13.6	12.1	3.17	3.25	3.46	3.87
Stoxx Eurozone - Eurozone	16.5	15.5	13.2	11.7	3.22	3.28	3.46	3.86

Source: Citi Research & DataStream

Figure 19. Pan-European Country Weightings & Returns

	Mkt Cap	% of	Relative Return to Stoxx				Absolute Return			
	(Euros m)	Stoxx	1m	3m	12m	YTD	1m	3m	12m	YTD
Austria	26,199	0.4	4	0	0	-4	5	7	22	14
Belgium	101,867	1.5	-1	-2	0	1	0	4	22	20
Denmark	126,534	1.9	-2	-4	-4	-3	-1	2	17	14
Finland	101,992	1.5	7	14	21	20	7	22	47	42
France	1,003,089	15.2	-1	-1	3	2	0	5	26	21
Germany	897,448	13.6	3	4	5	4	4	10	29	23
Greece	8,070	0.1	-8	14	24	24	-7	21	52	47
Ireland	52,146	0.8	4	4	17	15	5	11	43	36
Italy	239,733	3.6	-1	5	-2	-3	-1	11	20	15
Netherlands	267,769	4.1	1	-1	5	5	2	5	28	24
Norway	85,679	1.3	-5	-3	-14	-11	-4	4	5	5
Portugal	20,028	0.3	0	-5	-4	-8	1	1	17	10
Spain	318,168	4.8	-2	7	6	4	-1	14	29	24
Sweden	310,707	4.7	-2	-5	-1	-1	-1	1	21	17
Switzerland	886,029	13.4	-1	-3	2	3	0	3	24	22
UK	2,165,762	32.8	0	-1	-6	-5	1	5	15	13
Stoxx - Pan Europe	6,611,221	100								

Source: Citi Research & DataStream

Figure 20. Pan-European Country Relative Ratings

As at Close 26 Nov 13	Price/Earnings				Net Dividend Yield			
Country	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Austria	103	127	89	88	78	88	100	99
Belgium	128	128	119	120	100	94	105	103
Denmark	141	125	115	109	52	60	67	68
Finland	180	135	116	125	123	95	91	85
France	112	101	95	94	98	102	104	103
Germany	83	90	95	94	92	83	83	85
Greece	49	94	124	108	93	20	94	152
Ireland	146	175	140	129	44	44	45	43
Italy	112	107	98	94	100	100	100	101
Netherlands	114	114	102	101	75	70	73	69
Norway	77	81	82	83	142	140	141	138
Portugal	2058	276	115	84	128	99	103	106
Spain	134	107	109	105	139	163	136	144
Sweden	103	109	109	109	107	113	113	112
Switzerland	117	110	111	109	90	89	90	94
UK	87	92	96	100	106	106	107	105
EuroStoxx - Eurozone	107	103	99	97	99	98	97	97
Stoxx ex UK - Europe ex UK	108	104	102	100	97	97	97	97
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Research & DataStream

Figure 21. Pan-European Country Growth

As at Close 26 Nov 13	Earnings Growth %			Dividend Growth %		
Country	**2013E**	**2014E**	**2015E**	**2013E**	**2014E**	**2015E**
Austria	-17.0	59.9	13.0	15.3	22.3	10.3
Belgium	3.5	20.2	10.4	-3.8	19.8	8.5
Denmark	16.5	22.3	16.8	20.0	18.8	12.7
Finland	37.3	30.2	3.5	-20.2	1.9	3.6
France	14.4	18.8	12.4	7.2	9.0	10.0
Germany	-6.0	7.3	11.9	-7.0	7.4	13.0
Greece	-45.9	-14.8	27.4	-77.5	394.2	78.8
Ireland	-14.1	40.7	20.3	3.1	9.4	4.8
Italy	7.6	22.2	16.4	2.5	7.1	12.1
Netherlands	2.6	26.3	11.8	-4.1	11.6	5.3
Norway	-2.7	12.2	9.3	1.1	7.9	8.8
Portugal	666.7	169.4	52.0	-20.5	11.1	14.2
Spain	29.0	10.3	15.0	20.7	-10.8	17.3
Sweden	-2.7	12.8	11.0	8.8	7.1	9.1
Switzerland	9.3	11.0	13.8	2.2	8.3	14.9
UK	-3.1	7.3	7.4	2.8	8.1	9.4
EuroStoxx - Eurozone	6.6	16.7	12.9	2.0	5.5	11.5
Stoxx ex UK - Europe ex UK	6.4	15.3	12.9	2.8	6.4	11.9
Stoxx - Pan Europe	2.8	12.4	11.0	2.8	7.0	11.0

Source: Citi Research & DataStream

Figure 22. Pan-European Country Ratings

As at Close 26 Nov 13	Price/Earnings				Net Dividend Yield			
Country	**2012**	**2013E**	**2014E**	**2015E**	**2012**	**2013E**	**2014E**	**2015E**
Austria	15.9	19.1	12.0	10.6	2.54	2.94	3.59	3.96
Belgium	19.8	19.2	16.0	14.4	3.26	3.14	3.76	4.08
Denmark	21.8	18.7	15.3	13.1	1.69	2.03	2.41	2.71
Finland	27.8	20.2	15.5	15.0	4.00	3.19	3.25	3.37
France	17.3	15.2	12.8	11.3	3.19	3.42	3.73	4.10
Germany	12.8	13.6	12.7	11.3	2.98	2.77	2.98	3.37
Greece	7.6	14.1	16.6	13.0	3.04	0.68	3.38	6.05
Ireland	22.6	26.3	18.7	15.5	1.44	1.49	1.63	1.71
Italy	17.3	16.1	13.1	11.3	3.26	3.34	3.58	4.01
Netherlands	17.6	17.2	13.6	12.2	2.45	2.35	2.62	2.76
Norway	11.9	12.2	10.9	10.0	4.64	4.69	5.07	5.51
Portugal	318.1	41.5	15.4	10.1	4.18	3.32	3.69	4.21
Spain	20.8	16.1	14.6	12.7	4.54	5.47	4.88	5.73
Sweden	16.0	16.4	14.6	13.1	3.49	3.80	4.07	4.44
Switzerland	18.1	16.5	14.9	13.1	2.93	2.99	3.24	3.72
UK	13.4	13.8	12.9	12.0	3.45	3.55	3.83	4.19
EuroStoxx - Eurozone	16.5	15.5	13.2	11.7	3.22	3.28	3.46	3.86
Stoxx ex UK - Europe ex UK	16.7	15.7	13.6	12.1	3.17	3.25	3.46	3.87
Stoxx - Pan Europe	15.5	15.0	13.4	12.0	3.26	3.35	3.58	3.98

Source: Citi Research & DataStream

Figure 23. UK Sector Weightings & Relative Returns

As at Close 26 Nov 2013	Mkt Cap £m	% of AllShare	% of Group	Relative return 1m	3m	12m	Qtd	Ytd
OIL & GAS (26)	296,817	14.4		2	1	-11	2	-8
Oil & Gas Producers (18)	285,028	13.8	96	2	1	-11	2	-8
Oil Equip, Serv and Distrib (7)	11,691	0.6	4	-6	-3	-16	-4	-13
BASIC MATERIALS (35)	158,132	7.7		-6	-8	-23	-7	-27
Chemicals (8)	14,707	0.7	9	0	-3	-3	-2	-4
Forestry & Paper (1)	3,639	0.2	2	-10	-9	31	-8	29
Industrial Metals & Mining (4)	848	0.0	1	-19	-21	-61	-20	-63
Mining (22)	138,938	6.7	88	-7	-8	-25	-7	-30
INDUSTRIALS (109)	204,537	9.9		0	0	10	-1	9
Construction & Materials (12)	17,340	0.8	8	2	8	19	1	9
Aerospace (9)	48,247	2.3	24	0	-1	16	0	15
General Industrials (6)	14,348	0.7	7	-1	3	10	1	8
Electronic & Electrical Equip (13)	10,269	0.5	5	5	0	9	2	3
Industrial Engineering (12)	20,596	1.0	10	-3	-2	11	-4	7
Industrial Transportation (7)	3,014	0.1	1	-1	5	31	2	27
Support Services (50)	90,722	4.4	44	0	0	4	-1	6
CONSUMER GOODS (38)	280,166	13.6		0	-1	-5	-1	-1
Automobiles & Parts (1)	6,121	0.3	2	2	5	46	6	42
Beverages (5)	84,947	4.1	30	-1	-3	-9	-3	-4
Food Producers (11)	44,433	2.2	16	2	-2	-5	2	-3
Household Goods & Home Const (13)	49,843	2.4	18	2	5	17	6	17
Leisure Goods (2)	557	0.0	0	2	16	98	5	63
Personal Goods (4)	8,621	0.4	3	-1	-8	4	-11	5
Tobacco (2)	85,643	4.2	31	-2	-2	-15	-3	-9
HEALTH CARE (14)	151,720	7.4		4	-1	7	3	8
Health Care Equip & Services (6)	8,804	0.4	6	2	0	3	2	2
Pharmaceuticals & Biotech (8)	142,916	6.9	94	4	-1	7	3	9
CONSUMER SERVICES (84)	221,024	10.7		1	1	13	1	12
Food & Drug Retailers (7)	44,381	2.2	20	-3	-6	-1	-4	-3
General Retailers (22)	41,324	2.0	19	5	2	22	0	20
Media (23)	66,168	3.2	30	0	4	16	2	16
Travel & Leisure (32)	69,151	3.4	31	3	1	15	3	14
TELECOMMUNICATIONS (8)	148,228	7.2		4	15	28	5	32
Fixed-Line Telecoms (6)	33,817	1.6	23	5	10	38	7	36
Mobile Telecoms (2)	114,411	5.5	77	3	17	26	4	31
UTILITIES (7)	72,908	3.5		-3	-7	-8	-5	-8
Electricity (2)	15,697	0.8	22	-4	-14	-12	-10	-11
Gas, Water & Multi-Utilities (5)	57,211	2.8	78	-3	-6	-7	-4	-7
TECHNOLOGY (23)	31,773	1.5		1	1	6	-3	4
Software & Computer Serv (14)	13,793	0.7	43	0	-6	6	-4	1
Technology Hardware & Equip (9)	17,980	0.9	57	2	6	5	-2	6
TOTAL NON-FINANCIAL (344)	1,565,306	75.9		0	0	-1	0	0
FINANCIALS (265)	496,689	24.1		-1	0	4	0	1
Banks (6)	242,271	11.7	49	-1	-4	-1	-2	-5
Non-Life Insurance (11)	20,086	1.0	4	0	1	-2	0	-3
Life Insurance (11)	84,591	4.1	17	-1	5	16	4	15
Real Estate Inv. Servs (22)	10,280	0.5	2	-1	3	22	1	19
REITS (16)	30,687	1.5	6	-2	4	1	1	-1
Financial Services (26)	41,827	2.0	8	0	4	23	3	19
FTSE ALL SHARE (609)	2,061,994	100.0		0	0	0	0	0
FTSE 100 (100)	1,711,960	83.0		0	0	-2	0	-1
Mid 250 (250)	294942	14		0	0	10	0	7
Small Cap (259)	55,093	3		0	2	13	0	9

Source: Citi Research & DataStream

Figure 24. UK Relative Ratings

As at Close 26 Nov 2013	P/E Relative 2012E	P/E Relative 2013E	P/E Relative 2014E	P/E Relative 2015E	Yield Relative 2012E	Yield Relative 2013E	Yield Relative 2014E	Yield Relative 2015E
OIL & GAS	70	79	77	81	118	120	112	105
Oil & Gas Producers	69	79	77	80	120	122	113	106
Oil Equip, Serv and Distrib	104	90	88	83	77	78	84	87
BASIC MATERIALS	81	90	88	87	102	97	94	92
Chemicals	134	130	129	126	63	66	66	67
Forestry & Paper	128	92	87	93	69	73	94	87
Industrial Metals & Mining	-42	-229	-	81	42	20	32	58
Mining	76	86	85	85	107	102	97	95
INDUSTRIALS	124	119	117	113	76	75	72	71
Construction & Materials	130	167	133	113	103	101	96	91
Aerospace	110	99	102	101	79	79	78	76
General Industrials	108	106	103	102	83	82	82	80
Electronic & Electrical Equip	136	133	130	128	56	57	57	57
Industrial Engineering	135	126	122	122	62	62	62	61
Industrial Transportation	126	119	116	114	74	74	72	69
Support Services	130	126	123	119	74	71	67	67
CONSUMER GOODS	130	122	123	120	86	90	89	91
Automobiles & Parts	104	97	90	86	57	62	67	70
Beverages	152	144	146	143	63	65	66	66
Food Producers	140	133	135	132	85	87	84	83
Household Goods & Home Const	144	129	123	119	62	78	74	82
Personal Goods	167	147	138	135	53	57	61	62
Tobacco	105	100	103	102	128	128	126	127
HEALTH CARE	91	100	105	105	120	119	114	109
Health Care Equip & Services	123	123	124	121	59	56	55	55
Pharmaceuticals & Biotech	89	99	104	105	124	122	118	112
CONSUMER SERVICES	121	114	110	108	82	81	81	80
Food & Drug Retailers	86	91	96	102	118	113	108	100
General Retailers	132	121	114	111	68	68	68	68
Media	124	118	115	112	76	83	82	82
Travel & Leisure	148	126	114	108	75	67	72	73
TELECOMMUNICATIONS	110	108	145	154	129	121	121	122
Fixed-Line Telecoms	115	114	105	102	79	83	88	108
Mobile Telecoms	108	106	163	182	144	133	131	126
UTILITIES	100	102	105	106	155	150	146	140
Electricity	86	93	94	92	171	159	156	153
Gas, Water & Multi-Utilities	105	105	108	110	150	147	143	137
TECHNOLOGY	201	187	172	160	36	39	43	46
Software & Computer Serv	139	137	133	127	56	57	59	59
Technology Hardware & Equip	306	260	222	199	21	25	30	35
TOTAL NON-FINANCIAL	99	103	104	105	101	101	98	96
FINANCIALS	102	91	87	86	95	97	108	116
Banks	96	84	78	77	85	94	113	127
Non-Life Insurance	84	83	79	82	167	141	136	131
Life Insurance	94	94	92	93	103	102	104	103
Real Estate Inv. Servs	235	204	194	185	60	61	61	58
REITS	185	184	183	183	102	99	96	92
Financial Services	133	93	98	95	103	92	97	98
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	97	98	98	99	104	104	104	104
Mid 250	120	116	115	111	78	74	76	75
Small Cap	150	132	111	96	69	66	66	65

Source: Citi Research & DataStream

Figure 25. UK Sector Growth

	Earnings Growth %			Net Dividend Growth %		
As at Close 26 Nov 2013	2013E	2014E	2015E	2013E	2014E	2015E
OIL & GAS	-11.6	8.7	3.4	8.0	-0.3	2.6
Oil & Gas Producers	-12.3	8.7	3.0	8.0	-0.7	2.2
Oil Equip, Serv and Distrib	15.0	9.9	14.5	7.5	14.4	14.2
BASIC MATERIALS	-9.5	8.7	8.4	1.6	3.3	7.1
Chemicals	3.2	7.6	10.0	9.8	7.6	11.6
Forestry & Paper	39.4	12.8	1.1	13.0	37.7	1.1
Industrial Metals & Mining	-81.6	-	-	-49.3	70.3	101.7
Mining	-11.8	8.2	8.1	1.0	2.2	6.8
INDUSTRIALS	3.8	9.1	11.1	3.8	3.9	7.7
Construction & Materials	-21.9	34.0	26.7	4.4	1.6	4.4
Aerospace	11.5	3.4	8.5	6.0	6.4	6.5
General Industrials	2.6	9.1	8.5	4.8	7.7	7.0
Electronic & Electrical Equip	2.5	9.1	9.8	7.3	7.8	8.4
Industrial Engineering	7.5	10.4	7.8	6.6	7.0	6.8
Industrial Transportation	6.0	9.3	9.3	6.9	3.1	5.6
Support Services	3.2	9.2	11.4	1.2	1.5	9.7
CONSUMER GOODS	6.9	6.1	9.6	11.7	5.3	11.7
Automobiles & Parts	7.8	15.1	12.0	15.0	15.0	15.0
Beverages	5.7	5.1	10.1	10.6	7.5	10.4
Food Producers	5.9	5.0	9.5	8.9	3.2	8.5
Household Goods & Home Cor	11.5	11.8	11.2	33.7	1.2	21.9
Personal Goods	13.5	13.7	9.7	14.1	14.2	12.5
Tobacco	5.8	3.6	8.4	6.8	5.7	9.9
HEALTH CARE	-9.5	1.8	7.1	4.9	3.2	4.3
Health Care Equip & Services	-0.2	6.0	10.9	0.7	5.4	9.9
Pharmaceuticals & Biotech	-9.9	1.6	7.0	5.1	3.2	4.1
CONSUMER SERVICES	6.2	10.3	9.4	4.7	7.4	7.6
Food & Drug Retailers	-5.2	0.8	1.5	2.1	1.9	1.4
General Retailers	10.0	12.3	10.8	6.5	7.4	9.2
Media	5.3	9.3	10.5	16.1	5.9	9.7
Travel & Leisure	17.4	18.4	13.6	-4.7	15.2	10.4
TELECOMMUNICATIONS	2.2	-20.8	1.0	0.0	6.8	9.8
Fixed-Line Telecoms	1.2	14.9	11.6	11.5	13.6	34.0
Mobile Telecoms	2.5	-30.6	-3.8	-1.9	5.6	5.0
UTILITIES	-1.7	4.1	6.5	3.0	4.3	4.9
Electricity	-7.2	5.4	9.0	-1.5	5.2	6.8
Gas, Water & Multi-Utilities	0.1	3.6	5.8	4.3	4.0	4.3
TECHNOLOGY	7.4	16.2	15.7	15.8	17.2	16.2
Software & Computer Serv	1.3	10.2	12.3	9.3	10.6	9.0
Technology Hardware & Equip	17.7	24.8	20.0	29.2	28.7	26.9
TOTAL NON-FINANCIAL	-3.1	5.1	7.2	5.5	3.9	6.9
FINANCIALS	12.2	11.6	9.2	9.5	19.2	16.8
Banks	14.3	14.3	10.1	18.0	28.3	23.2
Non-Life Insurance	1.2	11.2	4.6	-10.1	3.3	5.1
Life Insurance	0.1	9.4	6.8	5.7	9.1	8.2
Real Estate Inv. Servs	15.1	12.3	13.1	8.9	7.7	3.6
REITS	1.0	6.8	7.8	3.9	3.5	4.3
Financial Services	44.0	0.4	11.0	-5.4	13.5	10.4
FTSE ALL SHARE	0.1	6.6	7.7	6.3	7.1	9.2
FTSE 100	-0.4	6.3	6.9	7.0	6.9	9.3
Mid 250	3.7	7.1	11.6	0.3	9.3	8.7
Small Cap	13.7	26.8	25.2	2.3	7.7	6.7

Source: Citi Research & DataStream

Figure 26. UK Sector Ratings

As at Close 26 Nov 2013	Price/Earnings 2012E	2013E	2014E	2015E	Net Dividend Yield 2012E	2013E	2014E	2015E
OIL & GAS	9.6	10.8	10.0	9.6	3.94	4.26	4.25	4.36
Oil & Gas Producers	9.4	10.8	9.9	9.6	4.00	4.32	4.29	4.39
Oil Equip, Serv and Distrib	14.3	12.4	11.3	9.9	2.58	2.77	3.18	3.62
BASIC MATERIALS	11.1	12.3	11.3	10.4	3.40	3.45	3.56	3.82
Chemicals	18.4	17.8	16.5	15.0	2.12	2.32	2.50	2.79
Forestry & Paper	17.6	12.6	11.2	11.1	2.29	2.59	3.57	3.61
Industrial Metals & Mining	-5.8	-31.4	-	9.6	1.39	0.70	1.20	2.42
Mining	10.4	11.8	10.9	10.1	3.57	3.61	3.69	3.94
INDUSTRIALS	17.0	16.4	15.0	13.5	2.55	2.64	2.75	2.96
Construction & Materials	17.9	23.0	17.1	13.5	3.43	3.58	3.63	3.79
Aerospace	15.1	13.5	13.1	12.1	2.64	2.80	2.98	3.17
General Industrials	14.9	14.5	13.3	12.2	2.76	2.90	3.12	3.34
Electronic & Electrical Equip	18.7	18.3	16.8	15.2	1.88	2.02	2.17	2.36
Industrial Engineering	18.6	17.3	15.7	14.5	2.07	2.21	2.37	2.53
Industrial Transportation	17.3	16.3	14.9	13.7	2.47	2.64	2.72	2.87
Support Services	17.9	17.3	15.9	14.2	2.48	2.51	2.54	2.79
CONSUMER GOODS	17.9	16.7	15.8	14.4	2.86	3.19	3.36	3.76
Automobiles & Parts	14.3	13.3	11.6	10.3	1.92	2.20	2.53	2.91
Beverages	20.9	19.8	18.8	17.1	2.10	2.32	2.49	2.75
Food Producers	19.3	18.2	17.3	15.8	2.84	3.09	3.19	3.46
Household Goods & Home Co	19.8	17.7	15.9	14.3	2.07	2.77	2.80	3.42
Personal Goods	22.9	20.2	17.8	16.2	1.77	2.02	2.30	2.59
Tobacco	14.5	13.7	13.2	12.2	4.25	4.54	4.80	5.28
HEALTH CARE	12.4	13.7	13.5	12.6	4.01	4.21	4.34	4.53
Health Care Equip & Services	16.9	16.9	16.0	14.4	1.97	1.99	2.09	2.30
Pharmaceuticals & Biotech	12.2	13.6	13.4	12.5	4.13	4.34	4.48	4.66
CONSUMER SERVICES	16.6	15.6	14.1	12.9	2.74	2.87	3.09	3.32
Food & Drug Retailers	11.8	12.4	12.3	12.2	3.94	4.02	4.09	4.15
General Retailers	18.2	16.5	14.7	13.3	2.26	2.40	2.58	2.82
Media	17.0	16.1	14.8	13.3	2.52	2.93	3.10	3.40
Travel & Leisure	20.3	17.3	14.6	12.9	2.49	2.37	2.73	3.02
TELECOMMUNICATIONS	15.1	14.8	18.6	18.4	4.30	4.31	4.60	5.05
Fixed-Line Telecoms	15.8	15.6	13.6	12.2	2.64	2.95	3.35	4.48
Mobile Telecoms	14.9	14.5	21.0	21.8	4.80	4.71	4.97	5.22
UTILITIES	13.8	14.0	13.5	12.6	5.16	5.31	5.54	5.81
Electricity	11.8	12.7	12.0	11.0	5.72	5.63	5.92	6.33
Gas, Water & Multi-Utilities	14.4	14.4	13.9	13.1	5.00	5.22	5.43	5.67
TECHNOLOGY	27.6	25.7	22.1	19.1	1.20	1.39	1.63	1.89
Software & Computer Serv	19.0	18.8	17.1	15.2	1.86	2.03	2.25	2.45
Technology Hardware & Equip	42.0	35.7	28.6	23.8	0.69	0.89	1.15	1.46
TOTAL NON-FINANCIAL	13.6	14.1	13.4	12.5	3.38	3.57	3.71	3.97
FINANCIALS	14.1	12.5	11.2	10.3	3.16	3.45	4.12	4.81
Banks	13.2	11.5	10.1	9.2	2.83	3.34	4.28	5.27
Non-Life Insurance	11.5	11.3	10.2	9.8	5.56	5.00	5.17	5.43
Life Insurance	13.0	12.9	11.8	11.1	3.43	3.62	3.95	4.28
Real Estate Inv. Servs	32.2	28.0	25.0	22.1	1.99	2.17	2.33	2.42
REITS	25.4	25.2	23.6	21.9	3.39	3.52	3.65	3.80
Financial Services	18.3	12.7	12.6	11.4	3.44	3.25	3.69	4.08
FTSE ALL SHARE	13.7	13.7	12.9	11.9	3.34	3.55	3.80	4.15
FTSE 100	13.3	13.4	12.6	11.8	3.46	3.70	3.95	4.32
Mid 250	16.5	15.9	14.8	13.3	2.62	2.62	2.87	3.12
Small Cap	20.6	18.1	14.3	11.4	2.29	2.34	2.52	2.69

Source: Citi Research & DataStream

Figure 27. Stocks Mentioned

Stock Name	RIC	Price	Rating	Currency
Aviva	AV.L	4.34	1	GBP
AXA	AXAF.PA	19.26	1	EUR
Barclays	BARC.L	2.68	1	GBP
ING	ING.AS	9.58	1	EUR
Kering	PRTP.PA	164.60	1	EUR
Linde	LING.DE	148.30	1	EUR
Novartis	NOVN.VX	71.05	1	CHF
Renault	RENA.PA	64.76	1	EUR
Rio Tinto	RIO.L	32.31	1	GBP
Siemens.	SIEGn.DE	98.10	1	EUR
Verizon	VZ.N	49.93	1	USD
Vodafone	VOD.L	2.29	1	GBP

Source: Citi Research *Price as of 27 November 2013

Notes

Appendix A-1

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