

Equities

6 July 2011 | 108 pages

Global Equity Quarterly

Climbing the Wall of Worry

- **Resilient** — Global equities have been resilient against a deluge of bad macro news. We expect global stock prices to track EPS higher in 2H. We target 380 for end-year on the MSCI AC World Index (currently 346).
- **Global EPS** — Global EPS growth will slow to 18% in 2011 from 44% in 2010, in our view. Fears of a collapse in profits seem misplaced given solid revenue growth and continued cost control. We expect 11% EPS growth in 2012.
- **Global Valuations** — Global equities have continued to de-rate in 2011 as earnings have risen faster than stock prices. The MSCI AC World Index trades on 12.4x 2011E and 10.9x 2012E EPS. Valuation measures suggest equities are now as cheap as the early/mid 1980s.
- **Wall of Worry** — We believe the soft patch in the US will be short-lived. GDP growth is forecast to accelerate in 2H. Bond yields should rise accordingly. We expect European sovereign concerns to be contained. Emerging Markets inflation and interest rates are near a peak, in our view.
- **Overweight Emerging Markets And Japan** — Signs of an earnings rebound keeps us positive on Japan. We are also buyers of EM. The asset class is cheap but the growth outlook is strong. We upgrade Continental Europe to Neutral. The region should benefit more from rising bond yields than the UK, which we downgrade to Underweight. We remain Neutral US equities.
- **Global Sector Strategy** — Our belief in the ongoing global EPS recovery means we have a cyclical tilt to our sector strategy. Defensive sectors seem expensive, have weaker earnings momentum and should underperform as bond yields rise. Stabilising earnings means we upgrade global Financials to Neutral.

Figure 1. Regional And Global Sector Recommendations (Arrows show latest changes)

Overweight Global Emerging Markets Japan	Neutral US Europe ex-UK ↑	Underweight UK ↓ Developed Asia
Overweight IT Materials Industrials	Neutral Consumer Disc. Energy Financials ↑ Utilities	Underweight Consumer Staples Health Care ↓ Telecoms

Source: CIRA

Equities

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

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AC World
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Climbing the Wall of Worry

On track

Despite plenty of macro concerns, including ongoing sovereign issues in Europe, a soft economic patch in the US and the end of QE2, global equities finished 2Q flat. Stock prices have been resilient and will track EPS higher in 2H, in our view. We remain bullish on global equity markets and forecast the MSCI ACWI to finish the year at 380 (currently 346). Our initial forecast for the end of 2012 is 420.

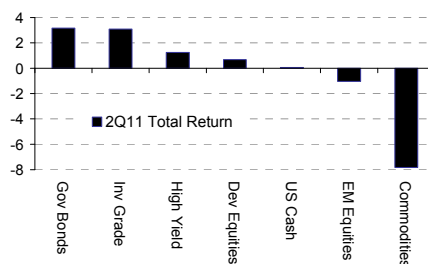
1H weakness in EM share prices means valuations for the asset class are close to four-year lows relative to DM. EM markets offer premium EPS growth through the cycle. They are not burdened by excessive leverage, and we think major central banks are nearing the end of their tightening cycles. We remain Overweight. We remain buyers of Japan where the supply chain is recovering at a fast pace and we expect stronger earnings momentum in 2H. We upgrade Continental Europe (where share prices have underperformed) to Neutral. Investors may be relieved that there is some incremental clarity on sovereign financing. We downgrade the UK to Underweight; we think it is a cheap market but is burdened by underperforming mega-cap stocks. Recent equity issuance means de-equitisation is not occurring as fast as we had hoped. The US benefits from strong earnings trends but remains relatively expensive. We are Neutral.

Our belief in the ongoing global EPS recovery means that our sector strategy still has a cyclical tilt. We are Overweight Materials, IT and Industrials. We upgrade Financials from Underweight to Neutral. We expect stock prices may enjoy strong rallies in what is still likely to be a longer-term bear market for the sector. EPS momentum looks to be stabilising for the time being. We are Underweight defensives: Telecoms, Consumer Staples and Health Care. Earnings trends here are generally weak, valuations are high, and these sectors usually perform poorly against a backdrop of rising bond yields.

2Q11: Trendless

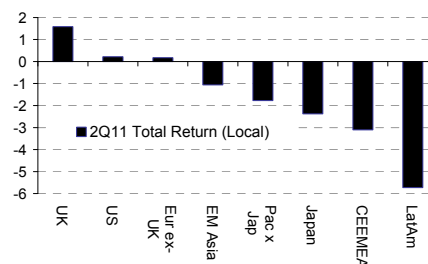
After four consecutive quarters of gains, global equities recorded a small loss in 2Q, with the MSCI ACWI falling just 0.5% in dollar terms. Equity markets in 2Q were generally trendless. While there were rallies and sell-offs, the underlying trend was sideways. The last quarter global stock indices were as trendless as in 2Q was way back in 2005.

Figure 2. Global Asset Returns (% US\$)



Source: CIRA, Datastream

Figure 3. Equity Region Returns (% Loc)



Source: CIRA, Datastream

Equities resilient in 2Q11

Despite slowing economic momentum, the ongoing EMU crisis and the looming end of quantitative easing, global equities were resilient in 2Q11 (Figure 2). Developed market equities provided a small positive total return, while Emerging Markets recorded a small negative. Commodities, and especially oil, were the weakest asset class in the quarter. Government and investment grade bonds provided the best returns. High yield bonds posted yet another positive quarter and have been the best-performing of the major assets year-to-date (+6%).

Within equities, most of the major developed markets posted small and positive returns for the quarter. The exception was Japan, which has fallen for two consecutive quarters now. Despite sovereign concerns in Continental Europe, the region benefitted from a late-quarter rally after Greek politicians accepted conditions for further financing from European authorities. All of the major EM regions were down in 2Q. The weakest was LatAm. The strongest was Asia.

As for global sectors, there was a tilt towards the defensives. Health Care and Consumer Staples were the best performers in 2Q. Both delivered more than 6% in absolute. Meanwhile, Energy and Financials were the weakest sectors. Still, the defensive vs cyclical call was not all one way. For example, Consumer Discretionary performed better than both Utilities and Telecoms.

Global Economic Outlook

Our economists still expect strong global growth for 2011 and 2012, but they have recently downgraded GDP forecasts for a range of developed economies¹. CIRA's key economic forecasts are outlined in Figure 4.

Figure 4. CIRA Economic Forecasts

Region	GDP Growth (%)			CPI Inflation (%)		
	2010F	2011F	2012F	2010F	2011F	2012F
Global	4.1	3.4	3.8	2.7	4.0	3.3
Industrial Countries	2.5	1.9	2.4	1.4	2.7	1.8
Emerging Markets	7.2	6.3	6.1	5.3	6.4	5.8
US	2.9	2.5	2.8	1.6	3.1	1.7
Japan	4.0	-0.5	3.1	-0.7	0.5	0.5
Eurozone	1.6	2.0	1.4	1.6	2.7	2.1
Germany	3.5	3.5	2.5	1.1	2.4	2.1
France	1.4	2.0	1.6	1.7	2.2	2.0
Italy	1.2	0.8	1.0	1.6	2.9	2.7
Spain	-0.1	0.3	0.2	2.0	3.1	1.5
UK	1.3	1.4	2.2	3.3	4.5	3.3
Sweden	5.4	4.8	3.3	1.2	3.2	2.4
Asia	9.1	7.7	7.7	4.2	5.5	4.7
Latin America	6.0	4.7	4.4	7.5	8.4	7.8
Central/Eastern Europe	4.6	4.4	4.0	6.1	6.8	6.1
Australia	2.7	1.4	4.0	2.8	3.1	2.7
China	10.3	9.2	9.0	3.3	5.0	4.0

Source: Citi Investment Research and Analysis

Global GDP +3.4% in 2011E

Over the last quarter, our global GDP growth forecasts for 2011 have come down by 20 basis points to 3.4%. This follows on from 4.1% growth in 2010. So economic growth should slow down faster than originally expected, but do not suggest a collapse. GDP growth still is expected to be well above the pre-crisis 1999-08 average of 2.9%. EM is forecast to be the engine of global growth, with real GDP is expected to expand by 6.3% this year. By contrast, we forecast less than 2% growth for DM.

In the US, higher energy costs and supply chain disruptions have led our economists to cut 2011 GDP expectations by 40 basis points in 2Q. The earthquake in Japan initially led our economists to significantly downgrade forecasts there. More recent evidence suggests disruptions in the supply chain are being resolved sooner than expected, resulting in small GDP upgrades in June. Our economists have

¹ Global Economic Outlook & Strategy. Willem Buiter et al, 22 June 2011

raised their Euro Zone GDP forecasts over the last quarter. We currently expect 2% GDP growth this year following 1.6% last year. Within the region, our economists expect a wide spread between the fastest-growing economy (Germany, +3.5%) and the slowest (Greece -4.1%). Recent UK data have been disappointing, and we have lowered our GDP forecasts accordingly.

In contrast to Developed Markets, our EM GDP forecasts have been upgraded this year. The biggest concerns in EM involve the outlook for China. Here we believe fears of a hard landing are misplaced and think GDP growth will moderate to 9.2% this year. Tighter monetary policy should mean growth troughs at 8.8% in 4Q and begin to accelerate going into 2012. Higher interest rates have raised fears of a sharp slowdown in India and Brazil. However, moderating commodity prices bodes well for inflation, interest rates and the outlook for economic growth.

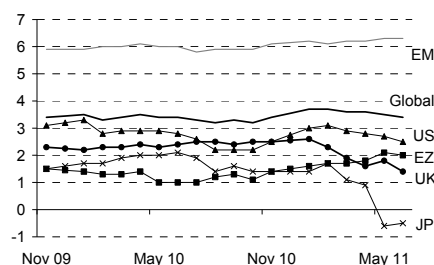
Global inflation 4.0% in 2011E

While we have shaved our outlook for global GDP, we have increased our inflation forecasts. We now expect global inflation of 4% this year following on from 2.7% last year. The growth/inflation mix has deteriorated somewhat in 2011. However, if the recent fall in energy prices is sustained, headline inflation measures should ease going forward.

Nominal GDP growth (volume plus inflation) is the key driver of global corporate sales. This should be healthy enough in 2011E (+7.4% global, following 6.8% in 2010). 2011E nominal GDP growth of 12.7% for EM looks particularly impressive.

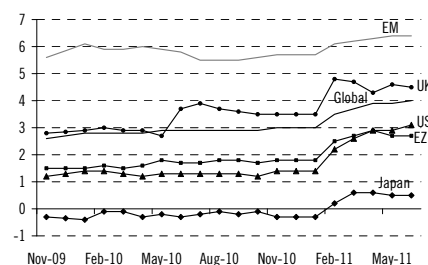
Economic growth divergence seems likely to remain an important theme, with EM vs DM and North vs South Europe being the most obvious examples. We also find much divergence within economies. For example, in the US and UK, the exporters are benefitting from a weaker currency and strong demand in Emerging Markets. Meanwhile, austerity measures and deleveraging households are keeping a lid on domestic growth. Similarly, in Australia mining investment could add 25% to Australian GDP over the next few years. This is squeezing out consumers as the central bank tries to contain inflation.

Figure 5. 2011 Real GDP Growth F'casts (%)



Source: Citi Investment Research and Analysis

Figure 6. 2011 Inflation F'casts (%)



Source: Citi Investment Research and Analysis

Rates to stay low, bond yields to drift higher

Rates and FX

Rising inflation forecasts are usually associated with increasing expectations of rate hikes. Here the ECB is leading the way. We expect a further 75 basis points of tightening by the middle of next year, by which time policy rates in the Euro Zone should be 2%. For the Fed, we do not expect another round of QE, and forecast rates to begin rising by 3Q of next year. Our forecast horizon has no rates rises for the Bank of Japan. The Bank of England, meanwhile, is expected to begin raising rates in 4Q 2011. In 12 months' time, we forecast policy rates in the UK to be 50 basis points higher. So for the major central banks, we expect moderate monetary tightening. Our forecasts imply real rates, in most major economies, will be negative for some time to come.

Elsewhere, rate tightening cycles have already begun. The Reserve Bank of Australia has raised rates to 4.75% and we expect another 50 basis points in the next 12 months. In Sweden, we expect the Riksbank to raise rates by a further 100 basis points over the next 12 months. Meanwhile, we believe the Chinese and Indian central banks could be nearing the end to their tightening cycles. We have both raising rates by just 50 basis points from here.

As global economic lead indicators rolled over in 2Q, bond markets rallied strongly. However, the combination of stabilising economic momentum, indebted governments and the end of QE2 looks to have weighed on government bond markets more recently. The US 10-year bond yield has risen by 25 basis points in just over a week. Our rates strategists forecast US yields to rise further to 3.6% by the end of the year. As the economic recovery continues, we expect bond yields to rise elsewhere. We forecast Bund yields will rise by 35 basis points to 3.4% by year-end and JGB yields are forecast to rise by a similar amount to 1.4%. UK Gilts are expected to finish the year somewhat higher as well.

Yen to be the weakest of the G3

Our FX forecasts imply further weakness for G3 exchange rates compared to the smaller G10 currencies and many of those in Emerging Markets. Within the G3, we expect the Euro to be the strongest over the next 12 months and the Yen to be the weakest. Commodity currencies like the Canadian Dollar, Australian Dollar and Norwegian Krona should perform well as commodity prices rise. In Emerging Markets, we expect the Chinese Yuan to appreciate by about 3% over the next 12 months. However, the Brazilian Real and Indian Rupee are forecast to be largely flat as authorities here near the end of their respective tightening cycles.

For a more comprehensive review of CIRA's economic forecasts, please see our economists' latest GEOS publication.

Credit Outlook

Range bound for the rest of the year

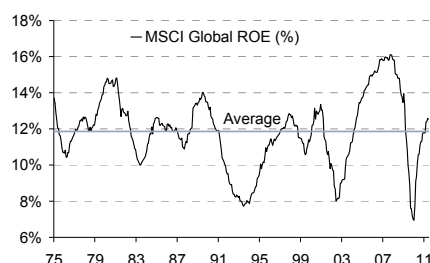
CIRA credit strategists, Matt King and Hans Peter Lorenzen, believe credit spreads will be range bound for the rest of the year. While there are serious structural issues still to be resolved, including European and US sovereign indebtedness, our credit strategists do not forecast unusually wide spreads. They think markets will continue to be supported by policy makers doing their best to provide liquidity and by strong inflows into credit funds. As the macro data stabilise over the summer, they forecast spreads to narrow once again. Over the longer term, they are more bullish on equities, as this is the asset to benefit most from solid corporate earnings.

Global Corporate Earnings

V-shaped EPS recovery

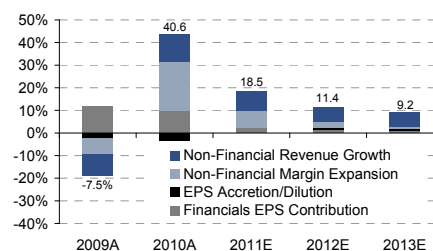
Having fallen 57% from the end-2007 peak, the MSCI AC World trailing EPS index has now more than doubled from the subsequent trough. The global RoE fell to a low of 7%, but has now rebounded beyond its long-run average of 12% (Figure 7). This has been a very V-shaped global profits recovery.

Figure 7. Global RoE (%)



Source: CIRA, Datastream

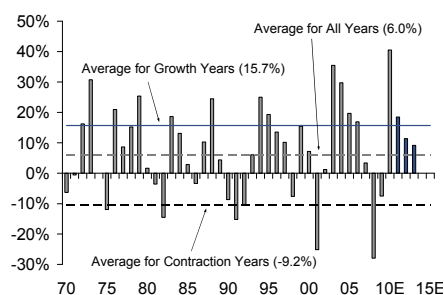
Figure 8. Citi Global EPS Growth Forecast (%)



Source: CIRA, Factset

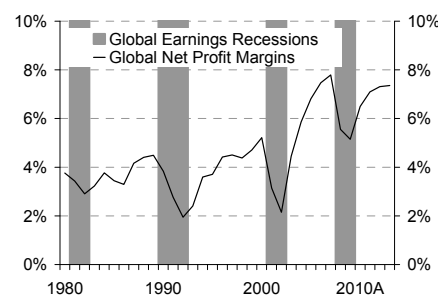
The bottom-up analyst consensus currently predicts Global EPS growth of 16% for 2011, up from 15% at the start of the year. Our top-down models suggest 18%; and we do not expect major upgrades or downgrades from analysts for 2011 (Figure 8). Concerns of a much weaker earnings growth outlook are misplaced, in our view. Our economists' forecasts of a sustained economic recovery and companies increasing leverage to that recovery should support top-line growth. At the same time, we find that corporates are still able to manage costs appropriately. So, while the gains on profits are unlikely to be as large as we saw in 2010, they should be closer to the average level we have seen for previous profit expansion years (Figure 9). We forecast 11% EPS growth in 2012, compared to the analyst consensus of 14%.

Figure 9. Global EPS Growth Inc. Forecast (%)



Source: CIRA

Figure 10. Global Non-Financial Profit Margin



Source: CIRA

Margins to remain resilient

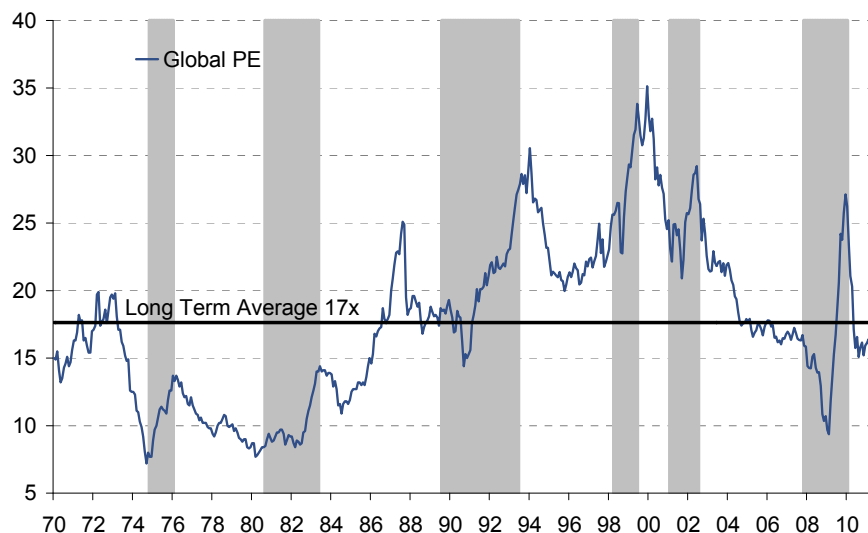
Our forecasts suggest that global net margins rise further over the next two years (Figure 10). They also imply that the structural increase in profitability achieved in the last cycle will be sustained. We have found in the past that companies have been able to generate further increases in margins as long as economic growth did not slow sharply. Moderate downturns give companies time to adjust their cost bases and generate reasonable profits growth. Rapid slowdowns do not. At the global level, previous pull-backs in margins have mostly been against a backdrop of sharply decelerating GDP growth.

Valuations

De-rating continues into 2011

Global equities de-rated sharply for much of last year as EPS caught up with share prices. Having fallen in 2010, the MSCI AC World trailing PE has fallen a further 10% in 2011 to 14.2x. Outside of the 2008 bear market, the last time global PEs were this low was back in the mid 1980s. The global PE ratio is now 20% below its longer-term average (Figure 11). We have also seen equities de-rate on forward PEs. At the start of the year, using bottom-up consensus expectations, the global equity benchmark was trading on 15.2 and 13.2x on 2011E and 2012E EPS. Now it trades at 12.4 and 10.9x — about 20% lower than the start of the year.

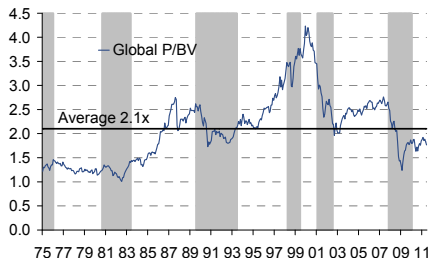
Figure 11. MSCI World Trailing PE (Shaded Areas Mark Earnings Downturns)



Source: CIRA, Factset

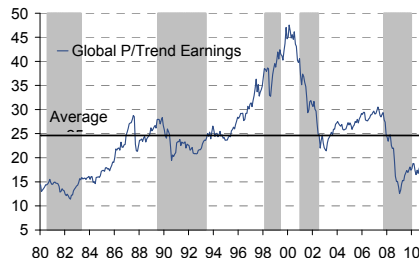
While the global trailing PE has fallen back into cheaper territory, it is a volatile index. So it is reassuring to see that two more stable valuation measures are also in similar territory. Figure 12 shows a global P/BV of 1.8x, up from the 1.3x reached in March 2009, but still 16% below the long-term average of 2.1x.

Figure 12. MSCI World P/BV



Source: CIRA, Factset, Grey Bars Are EPS Recessions

Figure 13. MSCI World PE (On 10 Year Av E)



Source: CIRA, Factset, Grey Bars Are EPS Recessions

Valuations still look attractive

Figure 13 shows a PE based upon current levels of share prices, but uses a ten-year average earnings trend, which helps to smooth out cyclical extremes. It gives a similar valuation signal to P/BV. Having suggested that global equities were looking expensive in 2007, this measure is now 23% below the long-term average.

Global equity valuations are again looking cheap. The trailing PE, P/BV and trend PE are back down to early/mid-1980s levels. And they are all below levels seen at the bottom of the 2000-03 bear market.

The Grind Higher: Year 2

We have used a consistent framework to map out the progress of the global equity market cycle². Figure 14 shows the benchmark MSCI AC World price index against its EPS index. We use trailing EPS so there will be some reporting lag. Reassuringly, this shows that share prices generally track profits over the long run. But there can be significant divergence along the way.

Figure 14. MSCI AC World Price And EPS Index (100= October 2007 Market High)



Source: Citi Investment Research and Analysis, Factset

The Twilight Zone begins when share prices bottom out (March 2009 in this cycle). This is usually around 6-9 months before global EPS bottom out. A combination of cheap valuations, tightening credit spreads, low interest rates, and economic green shoots is usually enough to turn share prices despite continued weakness in earnings. We call it the Twilight Zone because it can be very confusing for fundamental equity investors: share prices rise sharply even as EPS fall sharply.

Grind higher began in 2010

The Twilight Zone ends and the Grind Higher begins as EPS start to recover (January 2010 in this cycle). The Grind Higher has traditionally been associated with reasonable, if not spectacular, returns from global equities. This gives EPS a much-needed chance to catch up with share prices.

Our global equity forecasts are based upon 2011 being a typical second year of the grind higher. We forecast 18% global EPS growth in 2011 and expect the global equity index to rise by a similar amount. This underpins our MSCI AC World (currently 346) target of 380 for end-2011. Despite the recent rally, global equities still seem a little oversold at current levels (Figure 15).

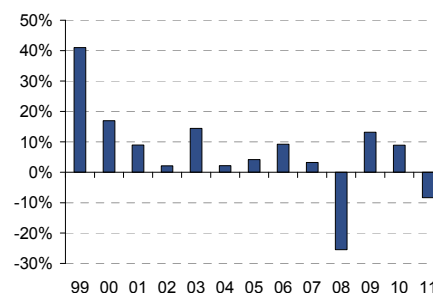
² Global Equity Strategist: The Grind Higher Year 2, 1 December 2010

Figure 15. MSCI AC World Index



Source: CIRA

Figure 16. Long/Short Equity Fund Return



Source: Hedge Fund Research

A strategy to adopt during the Grind Higher is to buy the dips and not chase the rallies too hard. This strategy paid off handsomely in 2010 and has so far served disciplined investors well in 2011. However, we suspect the further we progress through the cycle and the further the bear market of 2008 fades from memory, the smaller the dips and subsequent rallies will become. This has so far been a feature of equity markets in 2011. Markets have been broadly trendless and many investors are struggling to adapt. The average long-short equity fund was down by more than 8% in the first half (Figure 16). However, trendless markets are typical during Grind Higher years. It is no surprise to us that the last time we had such small quarterly change in equity indices was during the last Grind Higher, in 2005 and 2006.

Regional and Sector Allocation

How would we weight a global equity portfolio for these market conditions? For geographic rankings, we look to our regional model (RM), which measures the relative attractions of global equity markets as classified in the MSCI All Country World Index. We look at many factors. Some regions will score highly on some but worse on others. We then give weightings to each factor and aggregate to produce an overall ranking. This is an important (but not the only) input into our regional strategy. For example, we also consider our local strategists' views closely.

We use the same approach for our Global Sector Model (GSM). This ensures consistency between our regional and global sector views. We aggregate the various factors to give an overall ranking for a sector amongst its 10 MSCI All Country World Level 1 peers.

Earnings

Currently our allocation has an important focus on earnings. We prefer those regions and sectors benefitting from the strongest earnings trends. We think this will be a successful strategy for two reasons. First, we have found that earnings momentum strategies tend to outperform in mid-cycle years and underperform around major economic turning points³. As we remain in the mid-cycle, we expect these strategies to continue to do well. Second, the dispersion between regional and sector valuations are extraordinarily tight right now (more detail on valuation below). It seems that investors have little confidence in valuing future earnings growth and they are placing all regions and sectors on a similar multiple. So it makes sense to focus on those areas that offer the strongest profits potential. Many of these companies are not valued appropriately, in our view.

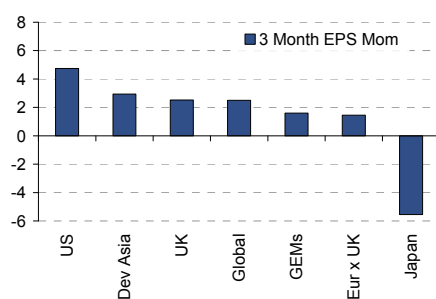
³ Global Equity Strategist: Earnings Momentum Strategies, 16 September 2009

We compare region and sector earnings in a number of ways. First we look at actual and expected earnings growth over a number of years. This highlights those areas of the market that should benefit from premium EPS growth through the cycle. Emerging Markets is the region that stands out here. Our Global EM strategist Geoffrey Dennis notes that premium GDP growth through the cycle should help deliver premium EPS growth.

We also consider more cyclical profitability indicators like RoEs. Our model is positioned to buy those regions and sectors where RoE increases are potentially the highest from here. A sector that stands out here is Financials. Current expectations are for 2011 RoEs for Global Financials to be less than 10% — 400 basis points below the market and 150 basis points less than the sector's historical average.

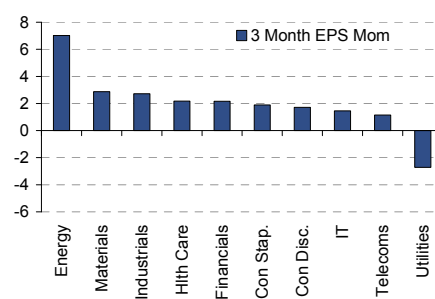
In addition, we consider factors that measure the change in analyst expectations. For example, we focus on those areas with the strongest earnings momentum. We identify earnings momentum here as changes in 12m forward EPS forecasts, so a mixture of forward-looking growth and analyst forecast changes. Figure 17 shows changes to regional earnings momentum over the past 3 months. Despite the Japanese outlier, the range is tight. Japanese estimates have obviously been downgraded heavily since the earthquake. As we highlight below, there are signs that earnings estimates here are beginning to recover. Outside of Japan, the spread between regions is narrow at about 3%.

Figure 17. 12m Fwd Earns Mo (% Change)



Source: CIRA, Factset

Figure 18. 12m Fwd Earns Mo (% Change)



Source: CIRA, Factset

EPS mo still favours cyclicals

Figure 18 also ranks global sectors by changes in EPS momentum over the past 3 months. We put this chart on the same scale as Figure 17 to show that there is currently more differentiation at a sector than regional level. The commodity-oriented sectors (Energy, Materials) lead the rankings. However, the recent fall in the oil price will probably weaken earnings momentum for Energy. Elsewhere, EPS momentum is still better amongst the cyclicals than defensives. The impact of the early-cycle EPS rebound can still be seen in the global sector rankings but it is less pronounced than a year ago.

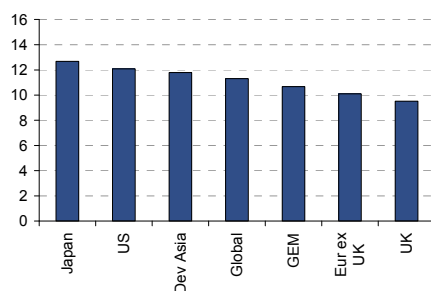
We also look at our earnings revision index (ERI). This measures the number of analyst upgrades per estimates changed and gives a more immediate picture of forecast changes but also tends to be volatile. Here we can see potential green shoots of a Japanese earnings recovery. Negative earnings revisions for the market have certainly slowed. Earnings revisions for the Japanese Autos sector have been positive for a few weeks now, after being strongly negative for an extended period after the earthquake. Amongst the global sectors, the strongest revisions right now are in the Energy sector.

Valuation and Price Momentum

Valuation spread is tight

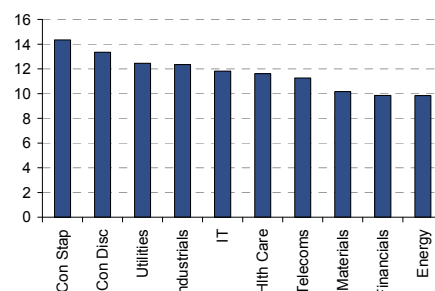
Valuation remains an input into our strategy, but is no longer dominant. Figure 19 and Figure 20 show a key valuation measure in our models — 12-month forward PE. The spread is tight, especially at a regional level. This is why we look to more diverse earnings trends to provide a more helpful guide to allocations. Europe continues to look cheap, with the UK trading on less than 10x forward earnings. Emerging Markets trade at a discount valuation. Japan is one of the few markets to have recently re-rated as forward earnings have fallen since the earthquake. Still, Japanese equities currently trade at just a 10% premium to global equities.

Figure 19. Region 12m Forward PE



Source: CIRA, Factset

Figure 20. Global Sector 12m Forward PE



Source: CIRA, Factset

Figure 20 ranks the 12m forward PEs of global sectors. Again, these are very convergent. The two most expensive sectors are Consumer-oriented (Staples and Discretionary). The two cheapest sectors are Financials and Energy. Valuations for other cyclical sectors, like Industrials and IT, do not look to be stretched.

We also break out a trend earnings valuation measure. This looks at a PE based on the current price and normalised RoEs for regions and sectors to reduce cyclicality (similar to Figure 13). It favours lowly-rated regions or sectors where earnings have fallen significantly and still have a good chance of a strong recovery. Right now, it likes Japan and Europe ex-UK. At a sector level, it highlights Utilities and Energy as cheap and makes Consumer Discretionary look expensive.

Don't chase short term price reversal

We also look at price momentum. We prefer regions or sectors where the trend is positive, but there has been a recent reversal. Our European team notes that price reversal strategies have worked well in their region⁴. Currently, this factor favours GEMs, Energy and Materials. These sectors were poor performers in 2Q. It is a seller of the UK, Health Care and Consumer Staples.

De-equitisation

With equity valuations low and debt cheap, we think that it makes sense for companies to reduce share counts⁵. We are generally suspicious of companies/regions/sectors that are serial equity issuers. Equity issuance is more forgivable in Emerging Markets where growth is strong and debt markets are much less developed. But issuance in slow-growing developed markets is likely to be highly dilutive to shareholders. Similarly, IPOs in markets bereft of strong fund inflows may flounder and can soak up the flows that would have supported existing shares.

⁴ European Equity Strategy, Tactical Shift: Banks To Overweight, Cattley, Esposito, Jensen, Stubbs, Vig, 27 May 2011.

⁵ Global Theme Strategist: De-Equitisation, 29 September 2010

Mega caps cheap but

Mega-caps continue to underperform the rest of the global equity market. Size might be good for profitability (and the egos of CEOs) but it has not been good for shareholder performance. We think that mega-caps had the most to gain when the cult of the equity was at its peak. They have the most to lose now that it is under attack. With mega-caps being too big to take over, share buybacks offer the best hope for value realisation but remain limited in scope. Sure, mega-caps are heavily involved in M&A but often as the acquirers rather than the acquired. We would rather own shares in the acquired.

So we like markets that are de-equitising and are not burdened by a heavy weight of mega cap stocks. The UK scores poorly here — the market has recently sustained some large equity issuance and is dominated by mega-caps. Energy and Financials also score poorly here. Energy has a large selection of behemoths who are loath to buy back their stock despite clean balance sheets. Financials are still in the process of re-capitalising balance sheets, especially in Europe.

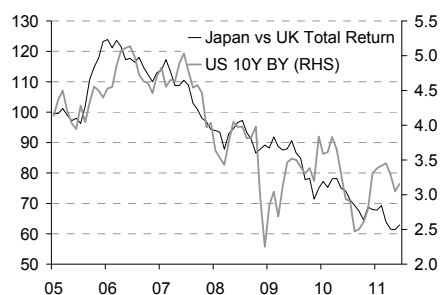
Bond Yields

Higher bond yields

Bond yields look set to rise from here. Our rates strategist, Mark Schofield, believes our economic forecasts are consistent with a fair value for the US 10-year of 3.6% by year-end and higher again going into next year. Further support for higher yields comes from extended government fiscal positions for G3 economies and the end of QE. We forecast higher yields in Europe and Japan as well.

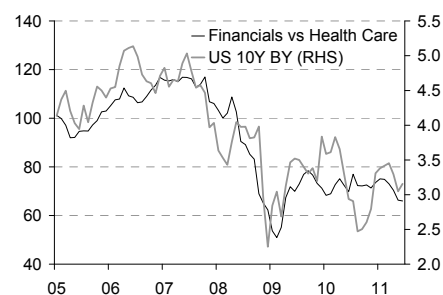
Weakness in bond markets is likely to have an uneven effect upon global equity markets. Rising bond yields in the past have generally been good for Japanese equity performance relative to the US and UK (Figure 21). Amongst the global sectors, rising bond yields have previously been times of cyclical sector outperformance versus the defensives. Equity investors forecasting higher yields should consider buying Financials and selling Health Care (Figure 22). Investors should be especially wary of bond proxies in the equity market. These companies have high payout ratios, low growth and offer high dividend yields — Telecoms.

Figure 21. Japan vs UK and US 10Yr BY



Source: Citi Investment Research and Analysis

Figure 22. Fins. vs Health Care, US 10Yr BY



Source: Datastream, Citi Investment Research and Analysis

Regional and Sector Recommendations

Figure 23 brings all these often contradictory factors together. We weight each according to our preferences and their statistical significance to give an aggregate score for the regions and global sectors, and then show an overall ranking. We set our valuation/price factors at 30%, our earnings growth/momentum weights at 40%, and de-equitisation and bond yields at 15% each.

Our allocation model is an important input to our regional and sector strategy. However, we use other inputs as well.

Figure 23. Regional and Sector Allocation Model (1 is Best)

Factor Weight (%)	Growth		Earnings		Valuation & Momentum			De-Equitisation	Macro	Result
	LT Growth	RoE	E Mom	ERI	Comp Val	P Mom	Trend PE	Eq & Mega	Bond Mkt	
	15	5	10	10	10	15	5	15	15	100
Regions										
Canada	3	4	4	2	7	1	5	1	4	1
GEM	1	6	5	4	4	2	3	3	3	2
Japan	5	7	7	5	2	6	1	2	1	3
US	2	5	2	1	6	5	7	5	6	4
Eur ex UK	7	1	6	6	1	4	2	4	2	5
UK	4	3	1	3	3	7	4	7	7	6
Dev Asia	6	2	3	7	5	3	6	6	5	7
Sectors - Level 1										
Energy	7	3	1	1	3	1	2	10	2	1
Materials	3	10	2	7	6	2	8	4	3	2
IT	1	9	9	8	4	5	9	8	1	3
Consumer Disc.	2	5	3	2	9	8	10	2	4	4
Financials	9	2	4	10	1	3	4	9	5	5
Industrials	6	6	5	6	8	4	7	3	6	6
Telecoms	10	4	8	3	2	6	5	7	10	7
Utilities	8	1	10	9	5	7	1	1	9	8
Health Care	5	8	6	4	7	10	3	6	7	9
Consumer Staples	4	7	7	5	10	9	6	5	8	10

Source: Citi Investment Research and Analysis

Regional Recommendations

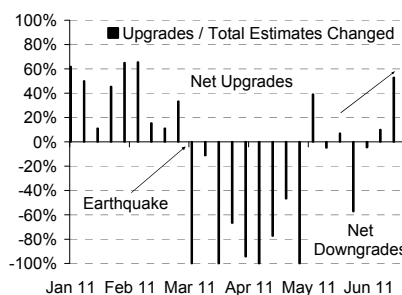
Overweight Japan and GEMS

Our key regional and global sector recommendations are summarised in Figure 29. We remain Overweight Japan. Valuations here look consistently competitive with other markets. While stock prices have suffered because of the post-earthquake earnings downgrades, we believe the rebuild should ensure earnings upgrades in 2H. Indeed, the all important Japanese Autos sector is already benefitting from net analyst upgrades (Figure 24). Also, the outlook for higher bond yields should bode well for Japanese stock prices, at least in local currency. Kenji Abe, our Japanese strategist, is forecasting double-digit returns for the second half and notes his market is supported by low valuations. In the past, Japanese equity valuations have stabilised at about 1x P/BV, irrespective of how low the RoE falls. Japan trades at about 1x now. Kenji is Overweight Japanese Consumer Staples and Energy. He is Underweight Financials and Utilities.

If Japan is our recovery option, Emerging Markets remain our preferred structural growth story. The first half rotation away from EM leaves valuations looking attractive. EM now trades at about a 10% discount to DM, which is close to the lowest level in the past four years. Growth prospects remain strong for EM and debt levels low. While commodity prices are not expected to race higher from here, our forecast of solid gains should support EM stock prices. Geoffrey Dennis, our Global EM Strategist, notes that it is rare that his region underperforms a rising global equity benchmark. The last time this occurred was in 1998. Geoffrey recommends investors buy into the big markets like China, Korea and Russia. He is Underweight some of the more expensive markets like India and Indonesia.

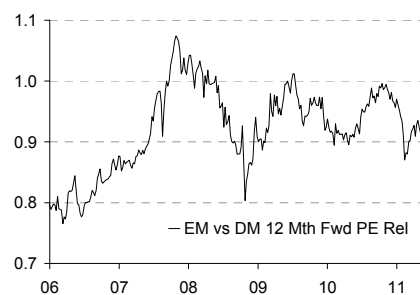
Within Emerging Markets, our Asia Pac Strategist, Markus Rosgen is bullish. He believes his region will be supported by low or negative real rates, a weaker US Dollar and ample liquidity. Markus thinks that cyclical companies are best positioned to benefit from the current economic environment. Thus he is Overweight Banks, Technology, Industrials, Energy and Real Estate. In LatAm, Jason Press and Matthew Hickman forecast gains in their region to be supported by cheap valuations, high and sustainable ROEs, and a solid macro outlook. Some recent stability in commodity prices should also help. In CEEMEA, Andrew Howell notes his regions trades on a forward PE of less than 8.6x. Even adjusting for the cheap Russian Energy companies, valuations still look unusually cheap.

Figure 24. Japanese Auto EPS Revisions



Source: Factset. Weekly Data

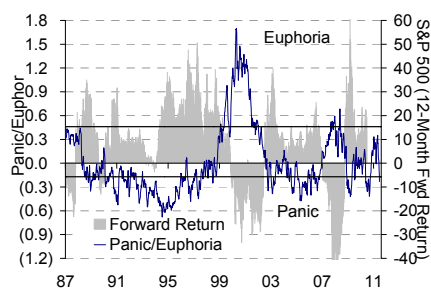
Figure 25. EM vs DM 12 Mth Fwd PE Rel



Source: Citi Investment Research and Analysis

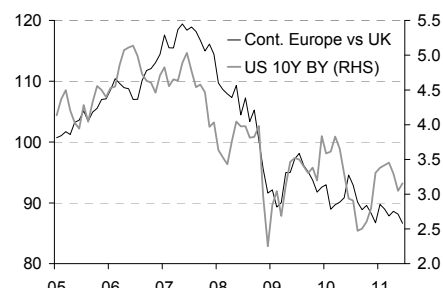
The US remains Neutral. The region benefits from some of the strongest earnings trends at the moment, but expensive valuation and a poor record when bond yields rise keep us from raising it to Overweight. Tobias Levkovich, our US equity strategist, notes that his Panic/Euphoria model, which measures investor sentiment, recently moved into panic territory. This has previously been a good buy signal (Figure 26). While Tobias forecasts gains from here, he still remains concerned that margins could come under pressure in the second half and government deficits are still to be tamed. He is Overweight US Energy, Consumer Staples, Financials and IT, and Underweight Consumer Discretionary, Health Care, Industrials and Materials⁶.

Figure 26. US Panic/Euphoria Model



Source: Citi Investment Research and Analysis

Figure 27. Cont. Europe vs UK, US 10Y BY



Source: Citi Investment Research and Analysis

We raise Continental Europe to Neutral and lower the UK to Underweight. Continental Europe has been a poor performer, weighed down by sovereign issues, indebted banks and rising rates. However, clarity on the outlook for sovereign financing may be a relief for some investors. Also, we expect the prospect of higher bond yields to support the region, especially relative to the UK (Figure 27). The UK

⁶ Global Equity Strategist: Thoughts From The Strategy Roadshow, 29 June 2011

is the cheapest market on our framework, however, it remains weighed down by mega-cap stocks, and recent issuance means that the market is not de-equitising as fast as we had hoped. Our European strategists note that the UK is amongst their least preferred countries. They prefer northern European countries of Scandinavia and Germany. They suggest investors buying into Europe should continue to focus on those companies with large and growing EM exposure. They recently upgraded Banks to Overweight.

We remain Underweight Developed Asia. This is a region dominated by Australia (65% of market cap) but also includes Hong Kong, Singapore and New Zealand. The region is suffering the weakest earnings revisions right now and longer-term growth prospects are not as inspiring as elsewhere. Tony Brennan, our Australia strategist, recently reduced his market target due to a slowing in profits growth. He believes Industrial companies (market ex Mining and Banks) face the biggest risk of earnings downgrades.

In Figure 28 we outline our regional strategist's market targets.

Figure 28. Citi Regional Strategists Market Forecasts

		30-Jun-11	End 2011 Target	Change
US	S&P 500	1340	1400	5%
Pan Europe	DJ Stoxx	275	315	15%
UK	FTSE 100	5990	6750	13%
Japan	Topix	854	920	8%
Asia x Japan	MSCI Asia x Japan	571	695	22%
Australia	S&P/ASX 200	4591	4900	7%
LatAm	MSCI LatAm	4529	5800	28%
Emerging World	Emerging World	1157	1500	30%
World	MSCI AC World	345	380	10%

Source: Citi Investment Research and Analysis

Sector Recommendations

Still Overweight cyclicals

Our global sector strategy keeps a cyclical tilt. We think it is still too early to give up on the recovery trade. Our Overweights (IT, Materials, Industrials) should benefit from a continued recovery in the global economy. These sectors also benefit from strong earnings trends and have previously performed well during periods of rising bond yields. Energy also rates highly in our allocation model. However, to limit our exposure to volatile commodities, we have opted to run with a single commodity sector Overweight — Materials.

Upgrading Financials

We close our Underweight position in Global Financials and raise the sector to Neutral. The sector has been a poor performer in 2Q as it was weighed down by a number of concerns — including weak economic growth, sovereign issues and leveraged balance sheets. We don't forecast economic momentum to be as weak in 3Q as last quarter. Sovereign issues remain, but the more immediate liquidity concerns have now been addressed, which should provide some relief. The sector is the cheapest on our composite valuation measure and has done well enough when bond yields have risen in the past. Importantly, earnings momentum is stabilising. While we are not long-term bulls on Financials, as there are major structural issues still to be dealt with, we think short-term performance may be strong. Previous "problem-child" sectors like Tech in the early 2000s or Japan in the early 1990s experienced explosive rallies in their structural bear markets.

Underweight defensives

Our Underweights have a clear defensive tilt and include Telecoms, Health Care and Consumer Staples. Other than being defensive, these sectors suffer weak earnings trends, valuations are not particularly attractive (other than Telecoms), and all have previously performed poorly when bond yields have risen. Health Care and Consumer Staples were the two best performers last quarter, and in a rotating market, may not be strong performers in 3Q.

Figure 29. Regional And Global Sector Recommendations (Arrows show latest changes)

Overweight Global Emerging Markets Japan	Neutral US Europe ex-UK ↑	Underweight UK ↓ Developed Asia
Overweight IT Materials Industrials	Neutral Consumer Disc. Energy Financials ↑ Utilities	Underweight Consumer Staples Health Care ↓ Telecoms

Source: CIRA

Global Preferred Stock List

Finally, with the help of our regional strategists, we draw together a global stock list in Figure 30. These are important Buy recommendations from CIRA analysts around the world. The list broadly reflects our region and sector preferences.

Figure 30. Most Preferred Stocks From Our Regional Strategists

Stock	Sector	Price	Rating	Currency	Country	Analyst Comment
América Latina Logística	Transportation	12.66	1H	BRL	Brazil	<ul style="list-style-type: none"> Leading LatAm logistics/rail company Well placed to exploit ongoing increase in global trade Signs that share price is stabilising
Apache	Energy	124.61	1M	USD	US	<ul style="list-style-type: none"> Double digit organic production growth Solid financial discipline Valued at a discount to peer group
Archer Daniels	Food Bev & Tobacco	30.8	1H	USD	US	<ul style="list-style-type: none"> Strong profit trends in agriservices Improving corn sweetener and processing fundamentals 9x PE well below 12x target
China Merchants Bank	Banks	18.88	1L	HKD	China	<ul style="list-style-type: none"> Beneficiary of rising rates Helped by strong mortgage/property demand Highest sustainable RWA growth in sector
Gazprom	Energy	7.05	1M	USD	Russia	<ul style="list-style-type: none"> LNG glut abating Nord Stream pipeline opening later this year Still trading at discount to peers
Goldman Sachs	Diversified Financials	134.8	1H	USD	US	<ul style="list-style-type: none"> Strong capital base Leading market position Double digit book value growth, potential for multiple expansion
Hyundai E&C	Capital Goods	86700	1M	KRW	Korea	<ul style="list-style-type: none"> Valuation discount has opened up Hyundai Group acquisition concerns overdone 21% EPS CAGR forecast for 2009-12
Inpex	Energy	588000	1H	JPY	Japan	<ul style="list-style-type: none"> Current valuation looks conservative Good progress on Kashagan field Improving newsflow on LNG should help unlock value
Itochu Corp	Capital Goods	854	1M	JPY	Japan	<ul style="list-style-type: none"> Business mix shifting towards international commodities Best RoE in industry We would buy into commodity-induced volatility
MetLife Inc	Insurance	43.83	1M	USD	US	<ul style="list-style-type: none"> Strong market positions and brand awareness M&A opportunities amongst weaker competitors Rapidly growing international operations
National Australia Bank Ltd	Banks	25.14	1M	AUD	Australia	<ul style="list-style-type: none"> Lower valuation than peers Peer-beating EPS growth forecast Recent initiatives showing traction
PZU	Insurance	380.3	1L	PLN	Poland	<ul style="list-style-type: none"> Leading Polish insurer Rising premium income Motor repricing helps offset impact of higher interest rates
Richemont	Consumer Durables	56.75	1M	CHF	Switzerland	<ul style="list-style-type: none"> High exposure to Asia and to EM clientele Greater cost & capital discipline than in the past Reasonable valuations in an expensive sector
Rio Tinto	Materials	44.84	1M	GBP	UK	<ul style="list-style-type: none"> Strong cash flow generation from iron ore Scale potential in iron ore mining Possible upside from previously delayed projects
Samsung Electronics	Semiconductors	899000	1L	KRW	Korea	<ul style="list-style-type: none"> Improving competitiveness Strong cashflow generation Operational leverage into industry upturn
Seven & I	Food & Staples Retailing	2203	1M	JPY	Japan	<ul style="list-style-type: none"> Signs convenience stores have bottomed Valuations around five year lows Next quarterly results could spark interest
Siemens AG	Capital Goods	94.7	1H	EUR	Germany	<ul style="list-style-type: none"> Recovery and restructuring still driving EPS growth Valuation at lower end of range Strong balance sheet
Texas Instrument	Semiconductors	33.11	1M	USD	US	<ul style="list-style-type: none"> Gaining market share National Semi acquisition adds scale Continued cost discipline
UMC	Semiconductors	14.25	1L	TWD	Taiwan	<ul style="list-style-type: none"> Increased capex discipline Cheap on 0.8x P/BV 8% dividend yield
Vale	Materials	30.17	1M	USD	Brazil	<ul style="list-style-type: none"> Lowest multiples for five years Strong balance sheet Strong portfolio of organic growth projects

Source: Citi Investment Research and Analysis. *Prices as of 4 July 2011

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Regions

Please refer to pages 84 and 85 for how to read this section

AC World

Market Cap (US\$) 29,386 Bn

Region Weight Breakdown

USA	42.7%
Europe ex UK	17.5%
Emerging World	13.6%
United Kingdom	8.3%
Japan	7.8%
Pacific ex Jp	5.2%

A last-minute rally left global equities flat over 2Q11 and up 3% YTD (both in US\$). This is a robust performance given all the bad macro news (EMU crisis, Japan earthquake, US soft-patch). It is consistent with our "Grind Higher" thesis - that at this stage of the cycle equity markets become less vulnerable to macro shocks and track corporate EPS instead. We forecast 15-20% global EPS growth in 2011, followed by 10-15% in 2012. These predictions drive our MSCI AC World targets of 380 for end-2011 and 420 for end-2012. This suggests healthy double digit gains for the next six months and is consistent with the market targets of our regional strategists. The key to success in the Grind Higher is to not get too bullish when markets have risen sharply or too bearish when they have fallen sharply. Our forecasts remain conservative given that we are not assuming any re-rating. A global PE around 12x is still well below the 16x long run average. A global P/BV of 1.8x is above the 1.3x low reached at the bottom of the 2007-09 bear market, but still 10% below the 2003 low. Cheap valuations should continue to provide a buffer against more macro concerns. All bull markets climb a wall of worry. We think that this one is no different.

Performance

Flat over 2Q11

Price Performance (Loc)

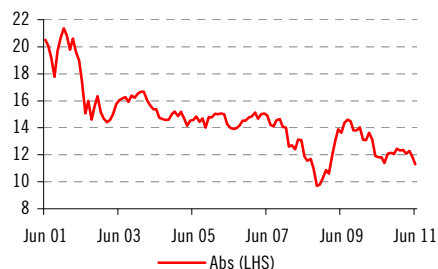


Source: CIRA, MSCI, Factset

Valuation

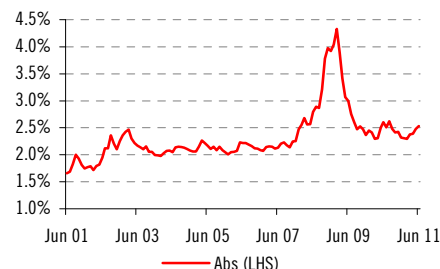
Reasonable valuation

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

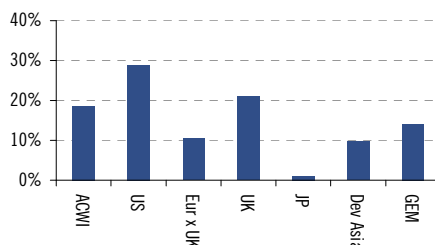


Source: CIRA, MSCI, Factset

Global Context

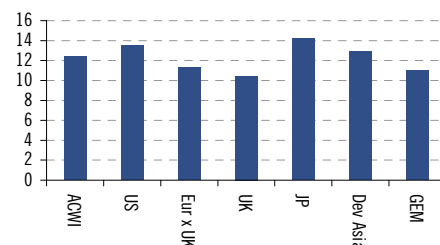
US strong performer

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7

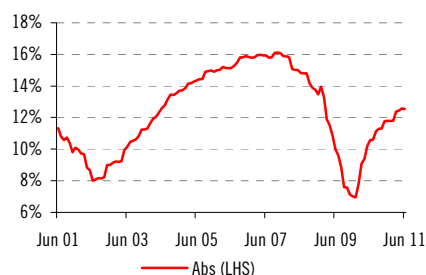
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

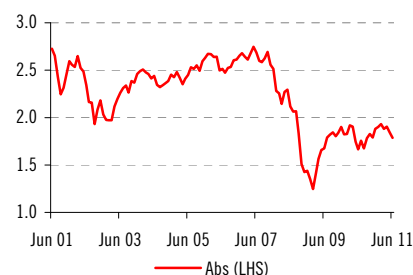
Profitability

Mid cycle RoEs

Return on Equity



Price to Book



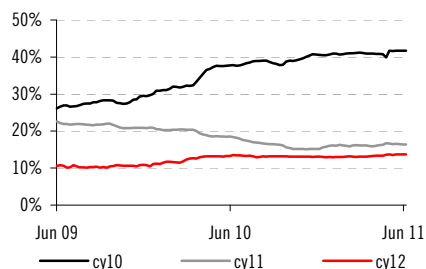
Source: CIRA, MSCI, Factset

Source: CIRA, MSCI, Factset

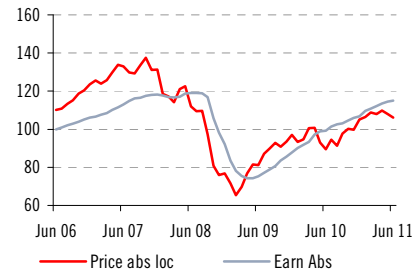
Earnings

Positive earnings momentum

Growth Forecast Trends



Earnings/Price Momentum



Source: CIRA, Factset Consensus

Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10						Top 11 - 20					
	Cntry	Rtg	Wgt	MC	PE		Cntry	Rtg	Wgt	MC	PE
ExxonMobil	US	1M	1.4	404	9.1	HSBC	GB	1M	0.6	176	9.8
Apple Inc	US	1H	1.1	309	12.1	Pfizer Inc	US	2H	0.6	165	9.1
Nestle	CH	2L	0.7	215	15.4	JP Morgan Chase	US	1M	0.6	163	7.8
IBM	US	1M	0.7	209	12.3	BHP Billiton	AU	1M	0.5	151	9.4
Chevron	US	1M	0.7	206	7.9	Novartis	CH	1L	0.5	143	10.6
General Electric	US	1M	0.7	200	12.5	Wells Fargo	US	2H	0.5	140	9.1
Microsoft	US	1L	0.7	197	9.4	Coca-Cola Co	US	1L	0.5	139	16.5
AT&T	US	1M	0.6	186	12.8	BP	GB	2M	0.5	138	6.0
Johnson&Johnson	US	1L	0.6	182	13.0	Vodafone	GB	1L	0.5	137	10.0
Procter & Gamble	US	1L	0.6	178	14.9	Oracle Corp	US	1L	0.5	133	13.5

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

USA

Neutral

Weight in MSCI AC World 42.8%
Market Cap (US\$) 12,571 Bn

Country Weight Breakdown
United States 100.0%

A sharp end-June rally left US equities flat over 2Q11 and up a healthy 5%YTD. In 1H11 US equities outperformed by 2% in US\$ terms and 4% in local terms. Just as strong domestic economic data helped US equities at the start of the year, so increasing evidence of a "soft patch" has proven a drag over the past 3 months. Tobias Levkovich, our US strategist, expects healthy performance over the rest of the year. His Panic/Euphoria sentiment measure fell into Panic territory at the end of 2Q11. This has given a powerful buy signal in the past, with US equities moving higher over the next 6 months on 90% of the occasions in which this has previously happened. The average gain over that next 6 month period is 9%. US EPS momentum has been healthy YTD, boosted by a decent domestic economy and the weak dollar. Tobias highlights that this has been fading recently, with US company pre-announcements being more negative than ahead of recent results seasons. However, we see this as a healthy expectation reset rather than the beginning of a wholesale EPS downgrade cycle. Tobias has never been a big believer in the "QE2 bailed out the S&P" idea, so is not especially concerned about its withdrawal. We remain Neutral on the US equity market. The defensive earnings story looks attractive, but much of this is already priced in.

Performance

Flat over 2Q11

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

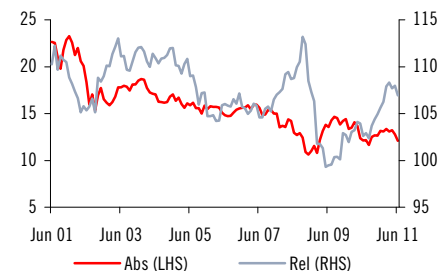


Source: CIRA, MSCI, Factset

Valuation

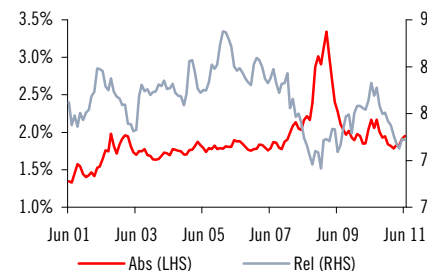
Premium valuations

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

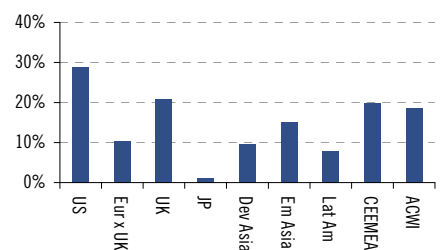


Source: CIRA, MSCI, Factset

Global Context

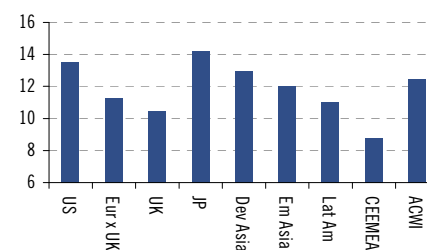
12 Month outperformer

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

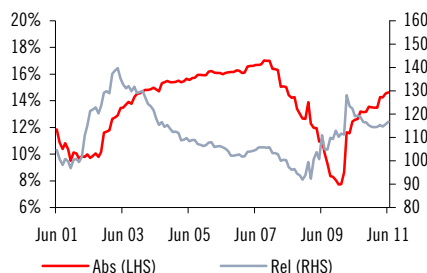
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	15.8	13.5	11.8	49.4	17.1	14.3	8.4	1.7	1.9
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	-0.3	5.2	28.9	-0.3	5.2	28.9	14.6	2.2	2.0
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

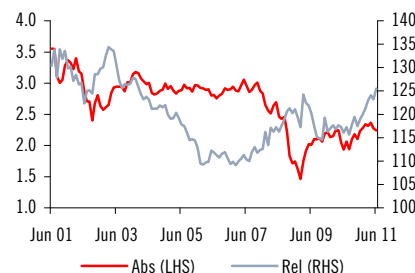
25% PBV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

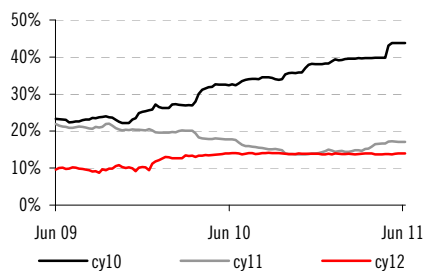


Source: CIRA, MSCI, Factset

Earnings

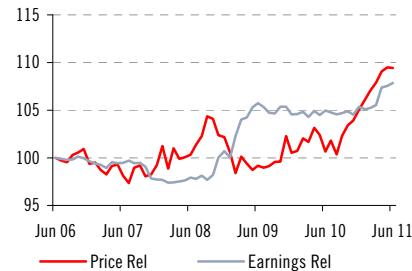
Earnings momentum improving

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10					Top 11 - 20				
	Rtg	Wgt	MC	PE		Rtg	Wgt	MC	PE
ExxonMobil	1M	3.2	404	9.1	JP Morgan Chase	1M	1.3	163	7.8
Apple Inc	1H	2.5	309	12.1	Wells Fargo	2H	1.1	140	9.1
IBM	1M	1.7	209	12.3	Coca-Cola Co	1L	1.1	139	16.5
Chevron	1M	1.6	206	7.9	Oracle Corp	1L	1.1	133	13.5
General Electric	1M	1.6	200	12.5	Google	2H	1.0	127	13.8
Microsoft	1L	1.6	197	9.4	Intel	1M	1.0	122	9.5
AT&T	1M	1.5	186	12.8	Citigroup		1.0	121	N/A
Johnson&Johnson	1L	1.4	182	13.0	Philip Morris	2L	1.0	120	13.8
Procter & Gamble	1L	1.4	178	14.9	Schlumberger Ltd	1M	0.9	118	19.5
Pfizer Inc	2H	1.3	165	9.1	Pepsico Inc	2L	0.9	112	15.0

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Europe ex UK

Neutral

Weight in MSCI AC World 17.5%
Market Cap (US\$) 5,152 Bn

Country Weight Breakdown

France	23.3%
Germany	20.2%
Switzerland	18.6%
Spain	8.0%
Sweden	7.0%
Italy	6.2%
Netherlands	5.6%
Denmark	2.4%
Finland	2.2%
Belgium	2.1%

Despite widespread (and entirely justified) concerns about the future of EMU, Europe ex-UK equities are flat YTD in local terms, but ongoing euro strength leaves them up 8% in US\$. Jonathan Stubbs and Adrian Cattley, our European strategists, suggest that Europe ex-UK valuations are already pricing in a lot of bad news. Compared to the MSCI AC World, the region trades on a 9% PE discount, a 17% P/BV discount and a 40% dividend yield premium. Indeed, they highlight that European equities now trade at a dividend yield premium to the domestic bond market. This has historically been a useful buy signal. While the likelihood of an eventual debt restructuring in Greece, Portugal and Ireland remains high we believe that the financial fallout should be contained. While economic performance in the periphery is weak, the core has been surprisingly strong. Weak earnings momentum reflects euro strength and generally disappointing growth prospects across the region. Nevertheless, recent underperformance leaves Europe ex-UK looking cheap and we move from Underweight to Neutral. The UK replaces Europe ex-UK as an Underweight. Our regional strategy team prefers the northern to southern European equity markets. Widespread financial contagion remains the biggest risk.

Performance

Flat YTD in local terms

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

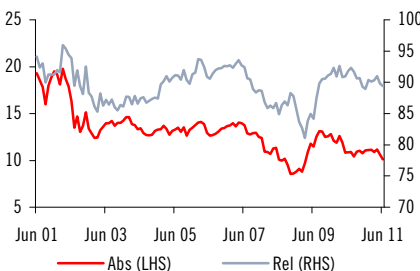


Source: CIRA, MSCI, Factset

Valuation

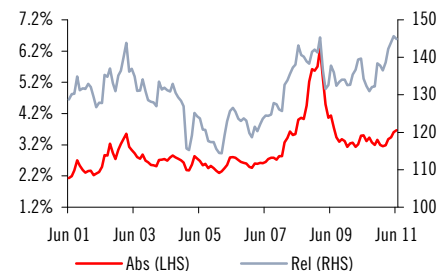
High rel. dividend yield

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

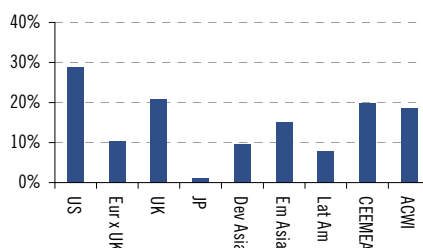


Source: CIRA, MSCI, Factset

Global Context

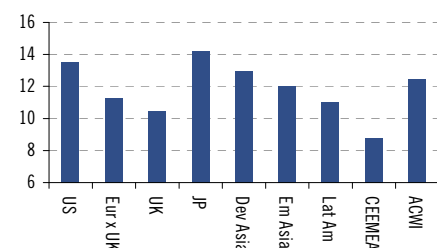
A cheap region

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

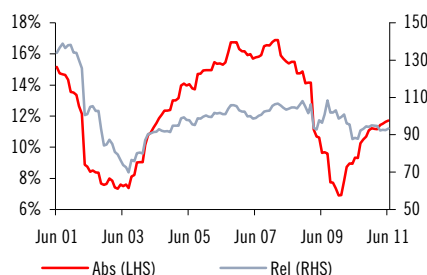
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	12.2	11.3	9.9	39.4	7.8	14.3	7.0	1.4	3.9
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	0.8	8.3	33.2	-2.3	-0.2	10.5	11.7	1.5	3.7
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

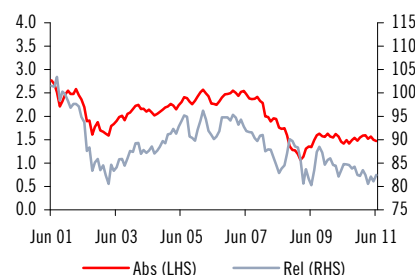
Discount on price to book

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

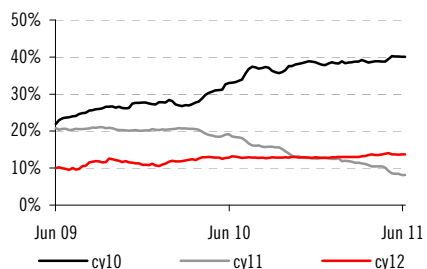


Source: CIRA, MSCI, Factset

Earnings

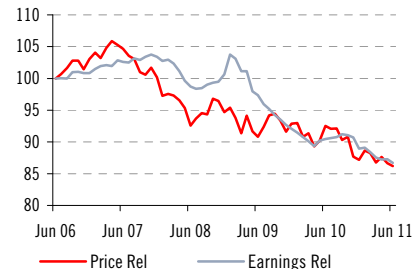
Weak earnings momentum

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10						Top 11 - 20					
	Cntry	Rtg	Wgt	MC	PE		Cntry	Rtg	Wgt	MC	PE
Nestle	CH	2L	4.2	215	15.4	Daimler	DE	1M	1.3	68	9.1
Novartis	CH	1L	2.8	143	10.6	Bayer	DE	1M	1.3	66	11.2
Total	FR	3M	2.4	122	7.0	UBS	CH	1M	1.3	66	7.8
Roche	CH	2M	2.3	117	10.2	Allianz	DE	1M	1.2	63	7.9
Siemens AG	DE	1H	2.2	113	11.6	ENI	IT	2M	1.1	57	6.9
Telefonica	ES	2M	1.9	100	9.2	ABB	CH	1H	1.1	57	15.6
Santander	ES	2M	1.9	97	7.0	SAP AG	DE		1.1	56	14.7
BASF	DE	1M	1.7	90	10.2	Deutsche Bank	DE	2H	1.1	55	6.4
Sanofi-Aventis	FR	1M	1.7	90	8.5	Unilever NV	NL	1L	1.0	53	13.9
BNP Paribas	FR	1M	1.4	74	6.8	Novo-Nordisk	DK	1M	1.0	53	20.7

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

United Kingdom

Underweight

Weight in MSCI AC World 8.3%
Market Cap (US\$) 2,443 Bn

Country Weight Breakdown
United Kingdom 100.0%

The UK equity market has moved sideways over the year in local terms and is up a reasonable 4% in US\$. This performance is generally in line with global markets. The market looks cheap according to our European strategy team. Relative to the MSCI AC World, it trades at a 15% PE discount and a 33% dividend yield premium. But then the UK market is always cheap - the 15% PE discount is similar to that seen at the same stage of the last cycle. And, much of this cheapness can be attributed to the UK's high weighting in more lowly rated mega-cap sectors such as Energy, Materials, Financials and Health Care. While the performance of the UK economy has been lacklustre, partly reflecting the ongoing impact of austerity measures, the importance of this for the stock market should not be overstated. Our regional strategists highlight that almost 70% of UK corporate revenues come from outside the UK. Nevertheless, relative earnings momentum has slipped this year and the UK market tends to underperform when bond yields are rising (a core part of our 2H11 scenario). Big recent equity issuance means that the UK scores poorly on our De-Equitisation rankings. These factors mean that the UK replaces Europe ex-UK amongst our Underweight recommendations.

Performance

Outperformer

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

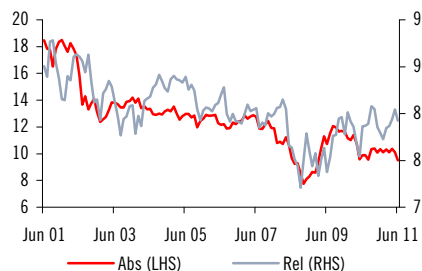


Source: CIRA, MSCI, Factset

Valuation

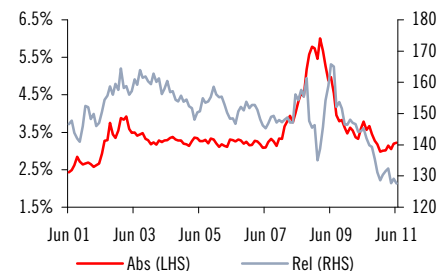
Cheap on 12m fwd PE

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

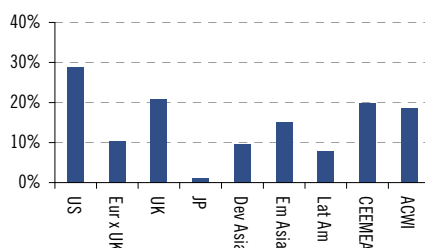


Source: CIRA, MSCI, Factset

Global Context

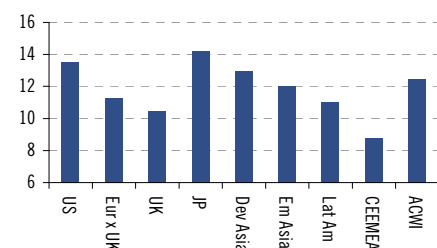
12 Month outperformer

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	12.5	10.5	9.5	34.3	19.1	10.4	7.7	1.2	3.6
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7

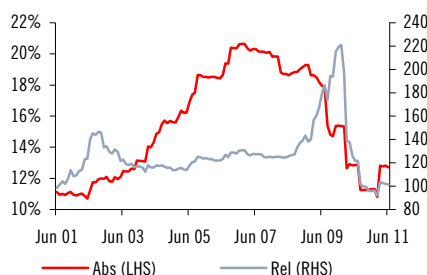
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	0.7	3.5	29.7	0.6	1.0	20.9	12.7	1.8	3.2
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

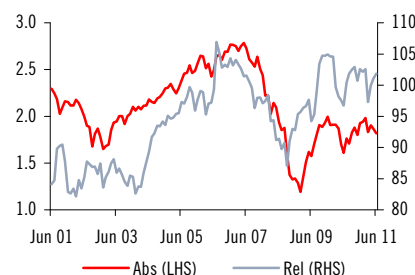
Small PBV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

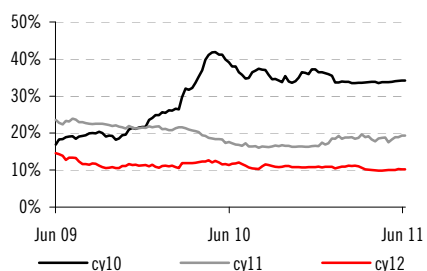


Source: CIRA, MSCI, Factset

Earnings

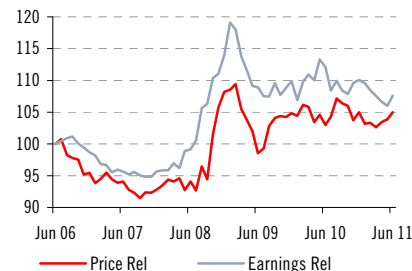
Price came up to meet earnings

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10					Top 11 - 20				
	Rtg	Wgt	MC	PE		Rtg	Wgt	MC	PE
HSBC	1M	7.2	176	9.8	AstraZeneca	1M	2.8	69	7.5
BP	2M	5.7	138	6.0	Anglo American	1M	2.7	65	7.3
Vodafone	1L	5.6	137	10.0	Standard Chart	1M	2.5	62	12.2
RD Shell Class A	1M	5.2	127	7.9	Tesco	3M	2.1	52	10.8
GlaxoSmithKline	2L	4.5	111	11.3	Diageo	2L	2.1	51	14.6
Rio Tinto	1M	4.3	104	7.4	Barclays	1M	2.0	48	7.2
RD Shell Class B	1M	3.9	96	7.8	Xstrata	1M	1.9	46	7.5
Brit Am Tobacco	2L	3.6	88	13.5	Unilever	1L	1.7	41	14.0
BHP Billiton	1M	3.5	86	8.0	SABMiller	2M	1.4	35	16.2
BG	1M	3.1	77	15.7	National Grid	2M	1.4	34	11.9

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Japan

Overweight

Weight in MSCI AC World 7.8%
Market Cap (US\$) 2,302 Bn

Country Weight Breakdown
Japan 100.0%

In a year when the performance differentials between major regions have been negligible, Japan has been an exception. Having underperformed sharply at the end of 1Q11 following the earthquake, it outperformed over 2Q11 in US\$ terms. Despite this better quarter, Japan is still down 6% YTD (in US\$ and local terms) against +3% for global equities overall. Kenji Abe, our Japan strategist, is bullish. Although Japan still trades at a 10% premium on 12m Fwd PE, Kenji thinks that it looks cheap on a P/BV and cyclically adjusted PE basis. He also believes that the domestic economy is rebounding faster than expected. Perhaps because of this, the Japanese corporate earnings revision index is improving (if from a very low base). This is unique in a world where revisions indices are generally getting worse. Japan is an interesting contrarian call with, compared to other regions, perhaps the greatest scope for EPS upgrades over coming months. We remain Overweight. Risks to our positive view remain the ongoing energy shortage and continued political paralysis. We would be even more bullish if we could see that Japanese companies were becoming more sensitive to the requirements of shareholders. But that still seems a distant prospect.

Performance

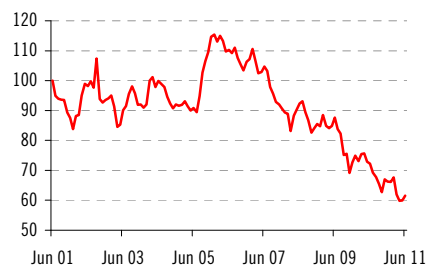
Signs of stabilization

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

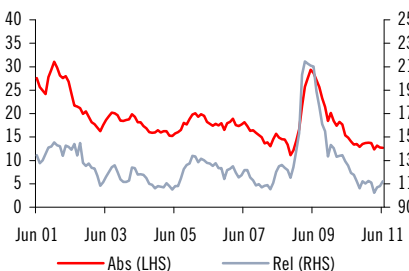


Source: CIRA, MSCI, Factset

Valuation

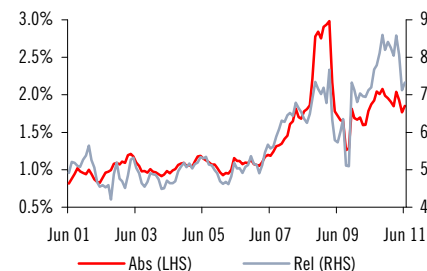
PE Premium

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

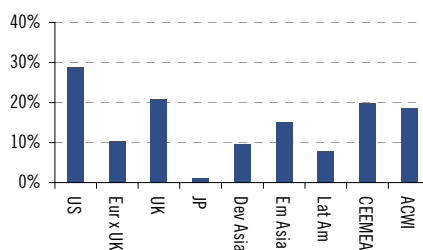


Source: CIRA, MSCI, Factset

Global Context

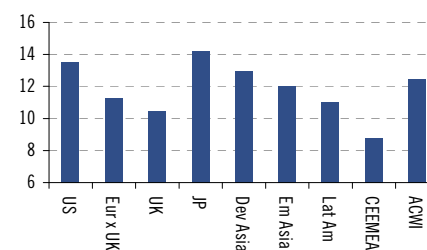
Worst performer over 12 months

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	16.9	14.2	11.9	134.7	24.5	23.7	8.1	1.0	2.3
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7

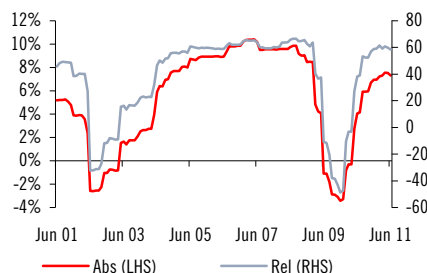
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	0.1	-5.8	10.7	-2.5	-6.2	1.1	7.3	1.0	1.9
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

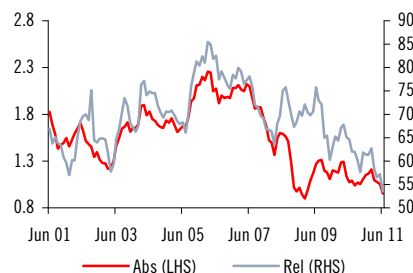
Back to 2007 RoEs but not
2007 PBV

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

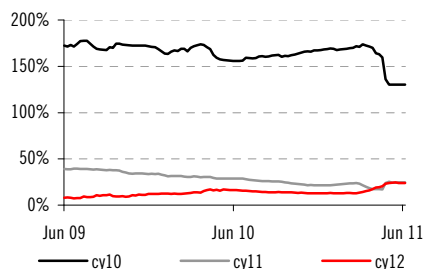


Source: CIRA, MSCI, Factset

Earnings

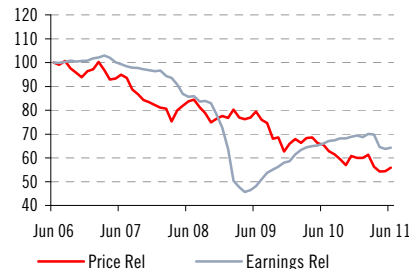
Solid EPS growth expected

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10	Rtg	Wgt	MC	PE
Toyota Motor	2M	4.9	113	18.0
Honda Motor	2M	2.7	62	12.9
Mitsubishi UFJ FG	1H	2.7	62	8.2
Canon Inc	1M	2.3	53	16.1
SMFG	1H	1.8	41	8.2
Takeda Chem	1M	1.6	36	12.2
Mitsubishi Corp	1M	1.5	34	6.4
Mizuho Financial	1H	1.5	34	7.4
SoftBank	1M	1.4	32	12.6
Fanuc Ltd	1M	1.4	32	17.9

Source: CIRA, MSCI, IBES

Top 11 - 20	Rtg	Wgt	MC	PE
Mitsui & Co Ltd	1M	1.3	30	5.2
Komatsu	1M	1.3	29	11.7
NTT DoCoMo	1L	1.2	27	11.4
Panasonic	1H	1.2	27	26.1
Hitachi Ltd	2H	1.1	26	9.3
Sony	1H	1.1	26	17.9
Nissan Motor	1M	1.1	26	11.4
NTT	1H	1.0	23	9.1
Mitsubishi Elec	1H	1.0	22	13.4
Shin Etsu Chemical	1M	0.9	22	15.6

Source: CIRA, MSCI, IBES

Developed Asia Pacific

Underweight

Weight in MSCI AC World 5.2%
Market Cap (US\$) 1,514 Bn

Country Weight Breakdown

Australia	65.4%
Hong Kong	20.7%
Singapore	13.0%
New Zealand	0.9%

Developed Asia Pacific is dominated by companies from Australia (65% of the region) but also includes Hong Kong (21%), Singapore (13%) and New Zealand (1%). In 2011 the region is up 1% in US\$ and down 3% in local terms, so a mild underperformer. Tony Brennan, our Australian strategist, recently reduced his end-2011 ASX200 target to 4900 from 5250, implying a 10% gain by year end. Tony suggests that the strength of the Australian mining sector is crowding out profits for the more domestic sectors. Elsewhere in the region, Markus Rosgen, our Asia Pac strategist, prefers HK to Singapore. Despite a recent de-rating, Developed Asia Pac still trades on a 5% PE and P/BV premium which looks high relative to its traditional discount multiples. EPS growth looks healthy enough for 2011 (+19%) but is expected to lag double digit world growth in 2012 (+9%). Premium valuations, along with Tony Brennan's less bullish view on Australia, keep us Underweight. Perhaps continued strong growth in Australia is still better played through the FX than equity markets. While the region is clearly a play on the EM economies, we would prefer to play that theme more directly through an Overweight in the Global EM index.

Performance

Underperformer

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

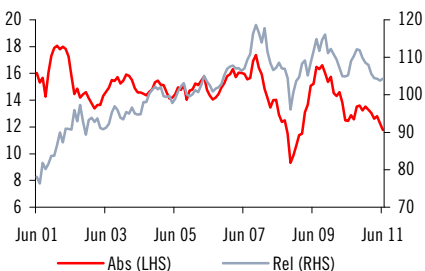


Source: CIRA, MSCI, Factset

Valuation

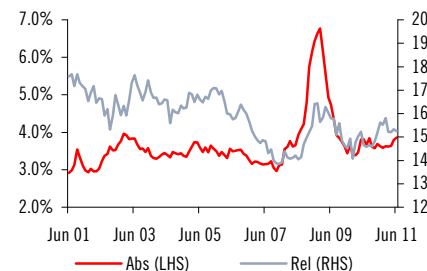
Attractive dividend yield

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

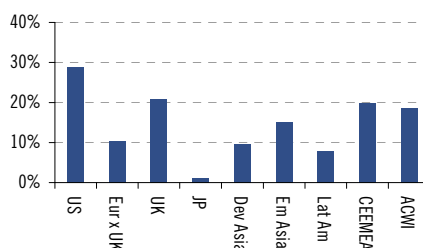


Source: CIRA, MSCI, Factset

Global Context

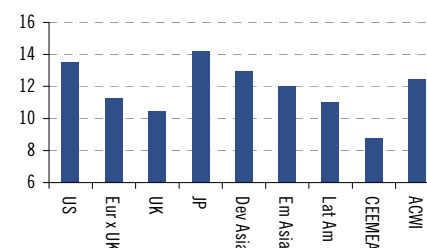
Still a PE premium

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

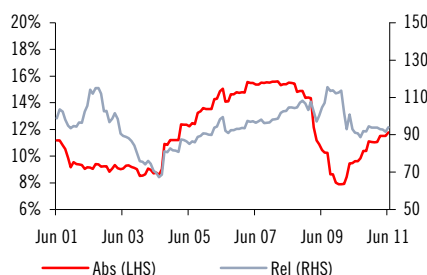
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	15.3	12.9	11.9	19.7	18.5	9.0	9.0	2.1	4.1
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	-1.2	0.7	30.6	-3.8	-2.8	9.7	11.8	1.9	3.9
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

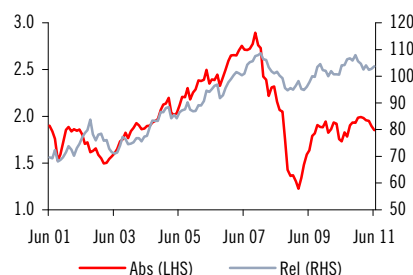
5% PBV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

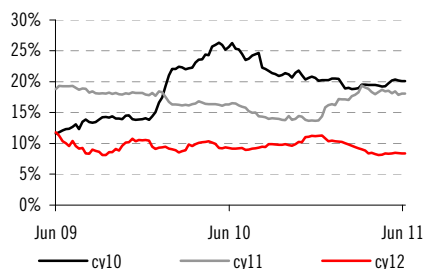


Source: CIRA, MSCI, Factset

Earnings

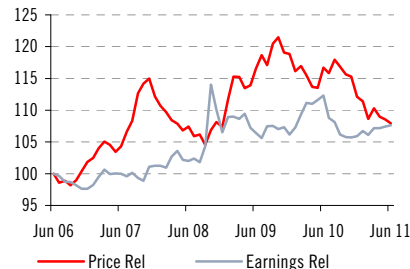
Earnings momentum improved lately

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10						Top 11 - 20					
	Cntry	Rtg	Wgt	MC	PE		Cntry	Rtg	Wgt	MC	PE
BHP Billiton	AU	1M	9.9	151	9.4	AIA Group	HK	1L	1.8	27	15.9
Comm Bk of Aus	AU	2M	5.7	87	11.3	Hutchison Wham	HK	1L	1.5	23	8.4
Westpac	AU	2M	4.7	72	10.1	HK Exch.	HK	1L	1.4	21	26.7
ANZ Banking Grp	AU	1M	4.0	61	9.6	DBS	SG	1L	1.4	21	11.2
NAB	AU	1M	3.9	60	9.6	SHK Props	HK	1L	1.4	21	15.2
Rio Tinto	AU	1M	2.6	39	8.5	SingTel	SG	1L	1.4	21	12.2
Woolworths Ltd	AU	1L	2.4	36	14.4	Westfield Group	AU	1M	1.3	20	12.9
Wesfarmers Ltd	AU	2M	2.3	34	14.2	Cheung Kong	HK	1L	1.3	20	8.1
Newcrest Mining	AU	2M	2.0	31	17.9	UOB	SG	2L	1.3	20	11.2
Woodside	AU	2M	1.8	27	16.3	QBE Insurance	AU	2M	1.3	19	10.9

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Emerging Markets

Overweight

Weight in MSCI AC World 13.5%
Market Cap (US\$) 3,982 Bn

Country Weight Breakdown (top 10)

China	17.3%
Brazil	15.5%
Korea	14.8%
Taiwan	11.1%
India	7.4%
South Africa	7.3%
Russia	6.8%
Mexico	4.4%
Malaysia	3.2%
Indonesia	2.6%

Emerging Markets (EM) were flat in 1H11 in US\$ terms and they were down 2% (abs) in 2Q11. There has been little differential in performance between the three EM regions (CEEMEA, Asia and LatAm), with Emerging Asia leading. The EM/DM trade has been highly rotational this year. By February, EM were down 8% relative representing a total reversal of the previous 12 months' outperformance. The worst thing to do then was to sell, as EM regained all their underperformance in March. There was more, if less frantic, rotation in 2Q11. On valuations, since 2007 EM have traded in a PE relative range of 85-105. The current PE relative (around 90) is towards the bottom of that range. Geoffrey Dennis, our Global EM strategist, is bullish. While the challenges for EM economies remain considerable, Geoffrey thinks they can continue to generate premium GDP and EPS growth over the medium term. This, along with the attractive valuation, means that we remain Overweight. Risks to this position include a broad increase in Emerging Markets inflation or a meaningful slowdown in China. Within the major EM regions, Geoffrey prefers China, Korea and Russia.

Performance

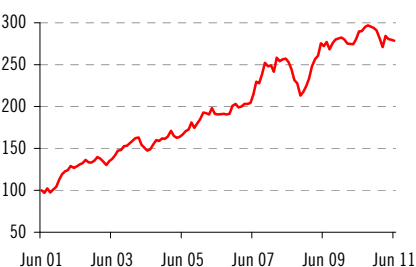
Backs off relative highs

Price Performance (Loc)



Source: CIRA, MSCI, Factset

Relative Price Performance (Loc)

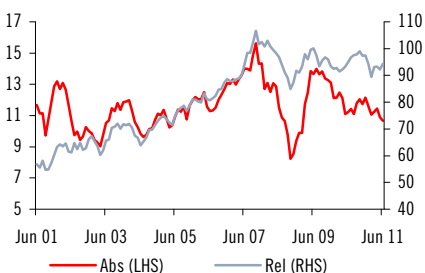


Source: CIRA, MSCI, Factset

Valuation

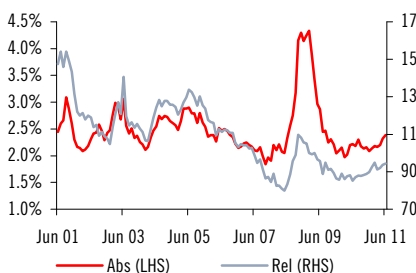
Can't achieve a PE premium

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

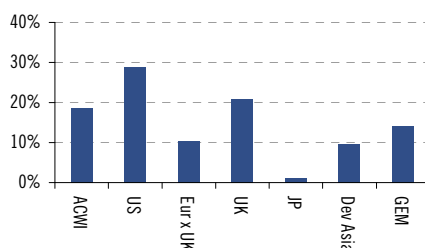


Source: CIRA, MSCI, Factset

Global Context

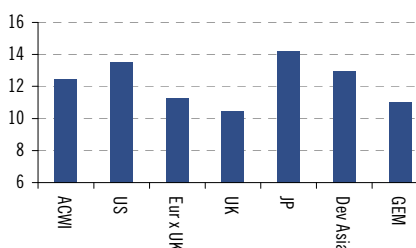
Double digit returns

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

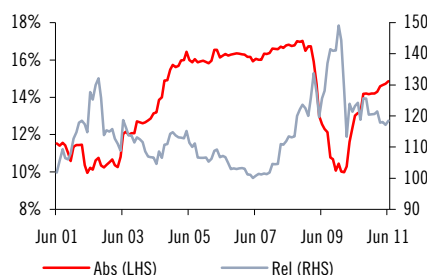
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	13.1	11.0	9.8	38.2	18.2	12.8	7.1	1.4	2.9
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	-2.1	-0.4	24.9	-3.6	-3.3	14.1	14.9	1.9	2.4
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

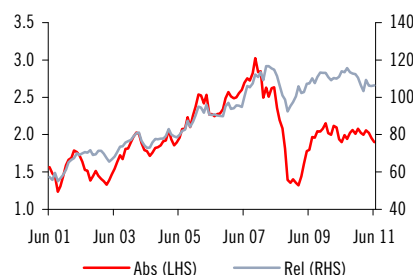
Small PBV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

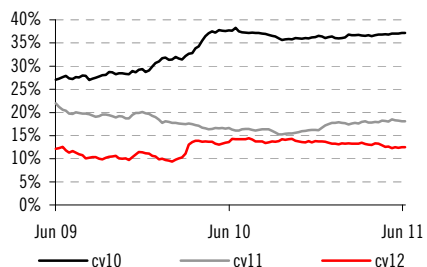


Source: CIRA, MSCI, Factset

Earnings

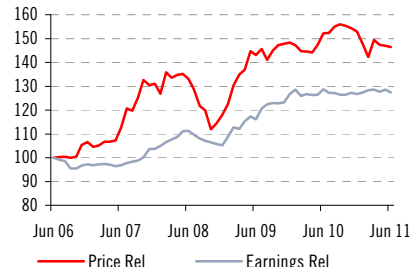
Earnings momentum flattening out

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

Top 1 - 10						Top 11 - 20					
	Cntry	Rtg	Wgt	MC	PE		Cntry	Rtg	Wgt	MC	PE
Samsung Elec	KR	1L	2.1	85	8.6	CNOOC	CN	1L	1.0	42	9.6
Gazprom	RU	1M	2.0	78	4.1	Vale	BR	1M	1.0	41	5.6
Petrobras-A	BR	1H	1.6	64	8.2	CCB	CN	1L	1.0	40	7.3
TSMC	TW	1L	1.6	62	11.4	Bradesco	BR	1M	1.0	39	10.1
Vale (Pref)	BR	1M	1.4	57	5.6	MTN Group Ltd	ZA	1H	0.9	36	11.9
China Mobile	CN	1L	1.4	56	9.7	Hyundai Motor	KR	1M	0.9	34	8.8
Itaú Unibanco	BR	1M	1.3	53	10.0	Lukoil	RU	1M	0.8	32	4.6
America Movil	MX	1M	1.3	53	6.2	Sberbank	RU	1M	0.8	31	7.6
Petrobras	BR	1H	1.3	50		PetroChina	CN	2L	0.8	31	10.2
ICBC	CN	1L	1.2	46	7.8	Sasol	ZA	1M	0.7	29	8.2

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

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Sectors - Level 1

Please refer to pages 84 and 85 for how to read this section

Energy

Neutral

Weight in MSCI AC World 11.8%
Market Cap (US\$) 3,472 Bn

Regional Weight Breakdown

US 45.8%
Emerging Markets 16.7%
UK 13.8%
Europe x UK 9.8%
Dev Asia 1.9%
Japan 1.2%

Industry Group Weight Breakdown

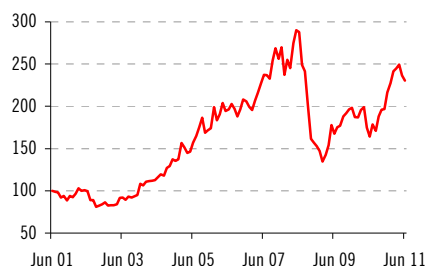
Energy 100.0%

After being the best performing sector in 1Q11, Energy was the worst in 2Q11, underperforming the global benchmark by 5% (-6% abs). As a result of easing tensions in the Middle-East and concerns about global growth, oil prices were down over the quarter, which was one of the reasons for the sector's underperformance. Emerging Markets and Developed Asia were the weakest regions (-9% and -8% abs) while the UK held up best (-3% abs). Earnings growth forecasts for 2011 have improved over the quarter (27% now vs. 19% three months ago) and stay well above the global benchmark (+16%). After the recent underperformance, valuations for the sector look cheap. It trades on a 15% discount on 2011 and 2012 PEs, 15% discount on EV/EBITDA and 20% discount on EV/Sales. Strong earnings momentum and cheap valuations should support the sector's performance. On the other hand, we dislike Energy's heavy weight in Mega Cap companies. While these companies may buy back some of their stock, they are also likely, we think, to buy smaller companies - perhaps a reason to focus on the non-mega cap companies within the sector. We remain Neutral to limit our commodity exposure. Our preferred commodity sector is Materials. Stocks to consider include Apache, Inpex and Gazprom.

Performance

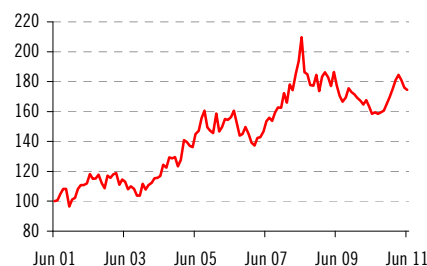
Worst performer in 2Q

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

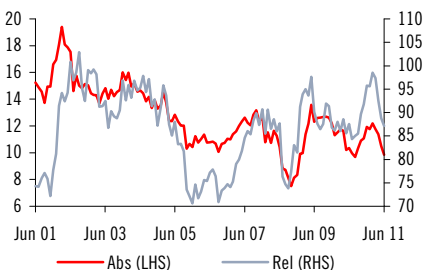


Source: CIRA, MSCI, Factset

Valuation

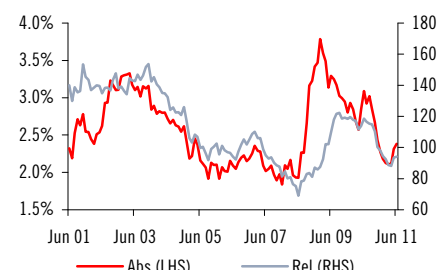
Discount on forward PE

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

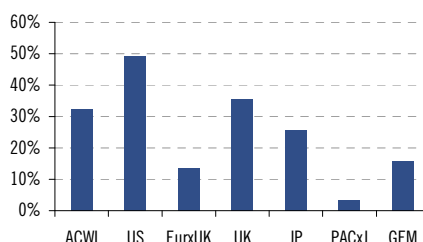


Source: CIRA, MSCI, Factset

Regional Breakdown

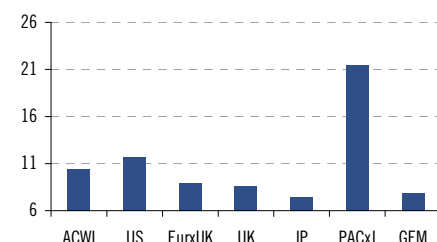
Europe cheaper than US

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

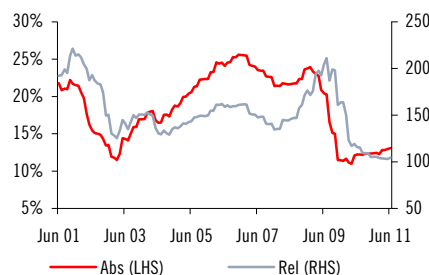
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	13.2	10.4	9.6	35.3	26.8	8.8	6.5	1.2	2.6
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-6.0	6.3	40.3	-6.7	4.0	32.3	13.1	1.8	2.4
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

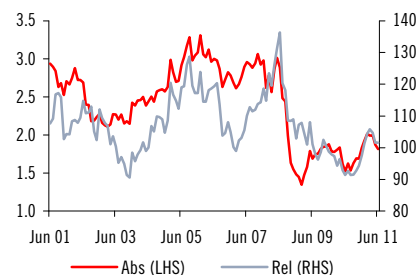
In-line RoE

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

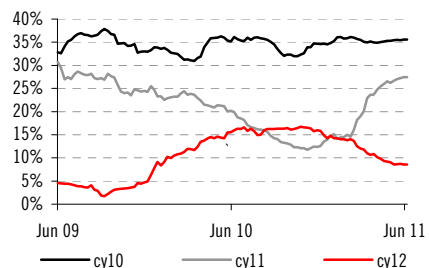


Source: CIRA, MSCI, Factset

Earnings

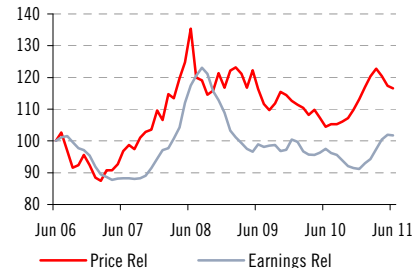
Earnings momentum improving

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
ExxonMobil	1M	11.6	404	9.1	BP	GB	2M	4.0	138	6.0
Chevron	1M	5.9	206	7.9	RD Shell Class A	GB	1M	3.7	127	7.9
Schlumberger Ltd	1M	3.4	118	19.5	Total	FR	3M	3.5	122	7.0
ConocoPhillips	2H	2.9	102	8.8	RD Shell Class B	GB	1M	2.8	96	7.8
Occidental	2M	2.4	85	11.2	Gazprom	RU	1M	2.2	78	4.1
Apache	1M	1.4	47	9.7	BG	GB	1M	2.2	77	15.7
Halliburton Co	1H	1.3	47	14.7	Petrobras-A	BR	1H	1.8	64	8.2
Anadarko Petro	1H	1.1	38	20.3	Suncor Energy	CA		1.8	61	11.6
Marathon Oil	1M	1.1	37	8.3	ENI	IT	2M	1.6	57	6.9
National Oilwell Varco	1H	0.9	33	16.5	Petrobras	BR	1H	1.4	50	

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Materials

Overweight

Weight in MSCI AC World 9.1%
Market Cap (US\$) 2,672 Bn

Regional Weight Breakdown

Emerging Markets 22.2%
US 18.7%
Europe x UK 17.1%
UK 13.3%
Dev Asia 11.1%
Japan 6.7%

Industry Group Weight Breakdown

Materials 100.0%

The Materials sector underperformed the global benchmark by 1% (-2% abs) in 2Q11. Lower commodity prices over the quarter was the key reason for this underperformance. CRB Metals Index was down 4% in 2Q11. Continental European companies were the best performers (+4% abs) followed by Japan. Emerging Markets and Developed Asia were amongst the weakest regions (down 4% and 2%). Near-term earnings growth prospects for the sector look solid. 2011 EPS growth forecasts for the sector have been resilient and stayed the same over the quarter at 39%, more than double the global benchmark (16%). After two consecutive quarters of underperformance, valuations are not as expensive as in the past. The sector now trades on a 10% discount on 2011E and 2012E PEs, 10% P/B premium, 5% EV/EBITDA premium and 20% EV/Sales premium. Our bond strategists forecast yields to rise in 2H11, which should help the sector to outperform. The sector benefits from strong cash flow, clean balance sheets and access to easy credit. Earnings momentum has been strong and we think the sector will continue to rank highly on this factor. We remain Overweight. Stocks our analysts like include Rio Tinto, Vale, Clariant and Mexichem SA CV.

Performance

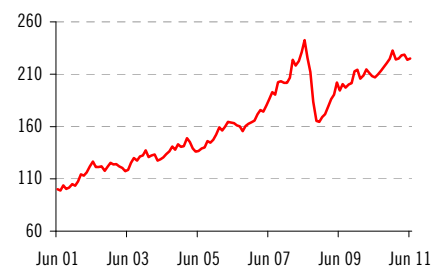
Recent underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

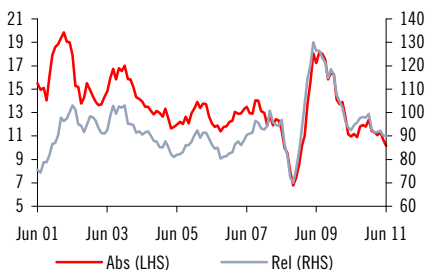


Source: CIRA, MSCI, Factset

Valuation

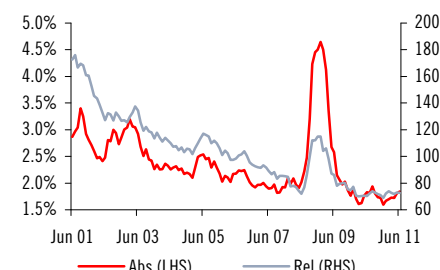
10% discount on forward PE

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

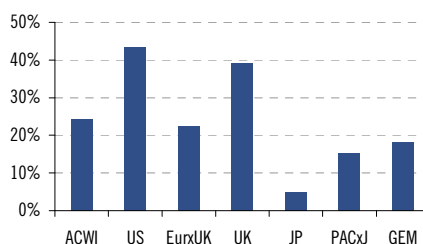


Source: CIRA, MSCI, Factset

Regional Breakdown

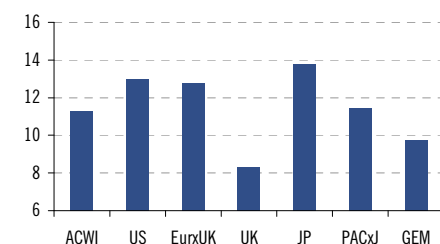
UK the cheapest

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

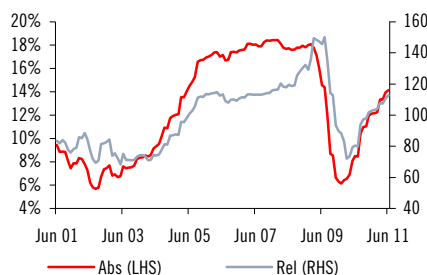
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	15.6	11.3	10.0	81.2	38.9	12.9	8.1	1.8	2.2
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-1.9	0.0	38.3	-3.5	-3.2	24.3	14.1	2.1	1.8
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

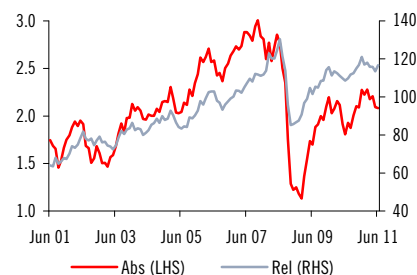
Improving RoE

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

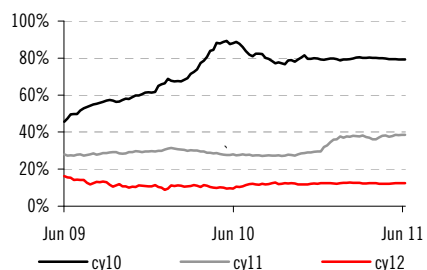


Source: CIRA, MSCI, Factset

Earnings

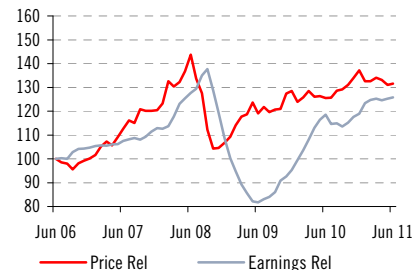
Strong earnings growth in 2011

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
DuPont	1M	1.9	50	13.1	BHP Billiton	AU	1M	5.6	151	9.4
Freeport McMoran	2H	1.9	50	8.6	Rio Tinto	GB	1M	3.9	104	7.4
Dow Chemical	1H	1.6	42	10.8	BASF	DE	1M	3.4	90	10.2
Monsanto	1M	1.5	39	22.0	BHP Billiton	GB	1M	3.2	86	8.0
Praxair	1M	1.2	33	18.5	Anglo American	GB	1M	2.4	65	7.3
Newmont Mining	2M	1.0	26	12.3	Vale (Pref)	BR	1M	2.1	57	5.6
Air Prods & Chem	1M	0.8	21	15.1	Potash Saskatchewan	CA	1M	1.8	49	15.4
Mosaic	1H	0.7	19	11.9	Xstrata	GB	1M	1.7	46	7.5
ALCOA	2H	0.6	17	11.1	Barrick Gold	CA	1M	1.7	45	10.0
PPG Industries	2M	0.5	15	13.2	Vale	BR	1M	1.5	41	5.6

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Industrials

Overweight

Weight in MSCI AC World 11.0%
Market Cap (US\$) 3,226 Bn

Regional Weight Breakdown

US 42.6%
Europe x UK 23.0%
Japan 14.8%
Emerging Markets 9.2%
Dev Asia 4.0%
UK 3.9%

Industry Group Weight Breakdown

Capital Goods 75.6%
Commercial Services 6.4%
Transportation 18.0%

Industrials underperformed the global benchmark for the first time in the last six quarters. The sector was down -1% in 2Q11 (rel and abs). However, it still outperformed by 1% YTD. Within regions, UK and EM were the strongest, while Japan and Developed Asia lagged. Amongst the industries, Transportation and Commercial Services were flat over the quarter, while Capital Goods was down 2% in 2Q11. Industrials still benefit from strong earnings momentum and revisions. The cyclical recovery for these companies continues at a solid pace. Also, the sector benefits from considerable exposure to Emerging Markets. Earnings forecasts are above the market at 19% in 2011E and 16% in 2012E. Investors are paying up for this strong growth. The sector does not look cheap on our valuation measures and, along with Consumer Discr., is the most expensive among cyclicals. It trades at a premium on PEs (10% premium in 2011E and 2012E), price to book (20%), EV/EBITDA (25%) and a discount dividend yield. The sector has many companies that are actively trying to realise value through spin-offs. Some of this cash is being returned to shareholders. The strong earnings outlook and potential de-equitisation keep us Overweight. Our analysts like Siemens AG, Hyundai E&C, Itochu and America Latina Logistica.

Performance

Underperformer in 2Q11

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

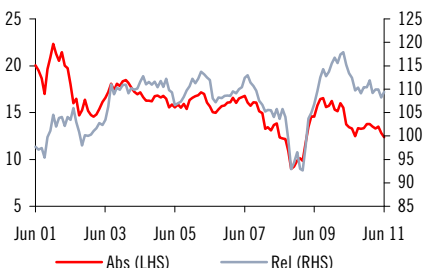


Source: CIRA, MSCI, Factset

Valuation

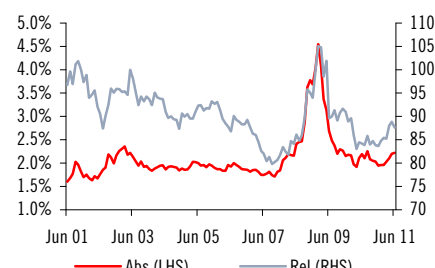
10% PE premium

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

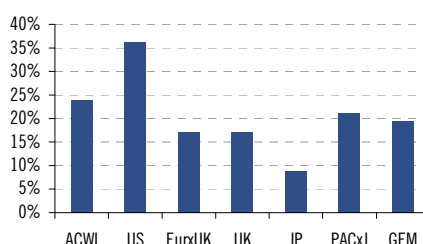


Source: CIRA, MSCI, Factset

Regional Breakdown

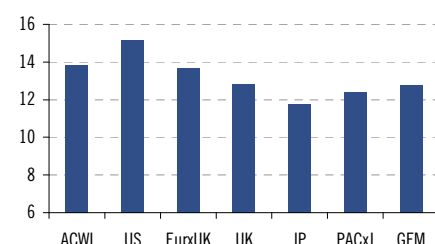
US best performer

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

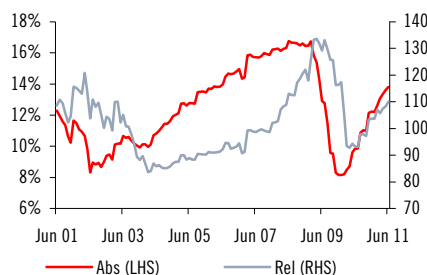
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	16.5	13.8	11.9	48.3	19.2	15.8	9.5	1.4	2.4
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-1.1	4.4	33.5	-2.4	2.0	24.0	13.8	2.1	2.2
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

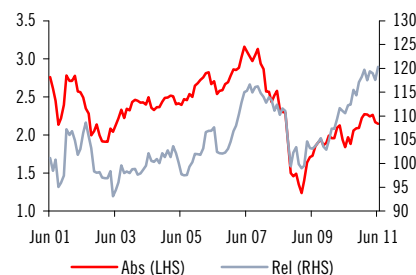
20% P/BV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

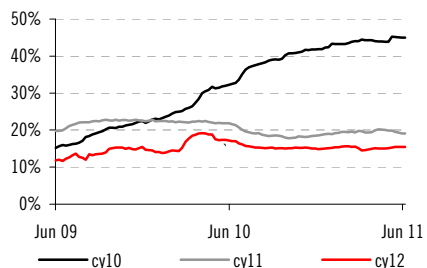


Source: CIRA, MSCI, Factset

Earnings

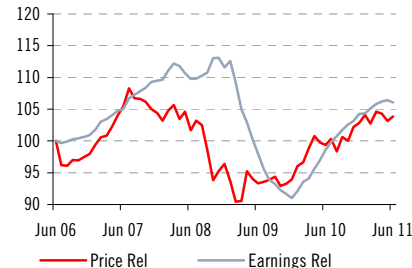
Relative earnings momentum strong

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
General Electric	1M	6.2	200	12.5	Siemens AG	DE	1H	3.5	113	11.6
United Tech	2M	2.4	77	15.3	ABB	CH	1H	1.8	57	15.6
Caterpillar Inc	2M	2.1	68	13.4	Schneider Elec	FR	2H	1.3	41	12.4
3M Co	2M	2.0	64	14.2	Canadian Nat Rly	CA	2M	1.1	37	15.1
United Parcel	1L	1.7	54	15.6	Mitsubishi Corp	JP	1M	1.0	34	6.4
The Boeing Co	1H	1.6	52	15.7	Fanuc Ltd	JP	1M	1.0	32	17.9
Union Pacific	1M	1.6	51	14.6	Mitsui & Co Ltd	JP	1M	0.9	30	5.2
Honeywell Intl	2M	1.4	44	14.0	Komatsu	JP	1M	0.9	29	11.7
Emerson Electric	2M	1.3	42	15.1	Vinci	FR	1L	0.9	28	12.2
Deere and Co	1M	1.1	35	11.7	Saint Gobain	FR	1M	0.8	26	11.7

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Consumer Discretionary

Neutral

Weight in MSCI AC World 10.1%
Market Cap (US\$) 2,975 Bn

Regional Weight Breakdown

US	47.3%
Europe x UK	18.1%
Japan	15.3%
Emerging Markets	10.3%
UK	4.6%
Dev Asia	2.6%

Industry Group Weight Breakdown

Autos & Components	26.8%
Consumer Durables	14.4%
Consumer Services	13.3%
Media	22.3%
Retailing	23.3%

Consumer Discretionary was the best performing cyclical sector in 2Q11, outperforming the market by 5% (4% abs). The sector has outperformed in nine out of the last ten quarters (1Q11 being the exception). Since the start of 2011 it's up 6% (abs) and 3% (rel) and is on track to outperform for the fourth consecutive year. The strongest regions in 2Q were Continental Europe and Emerging Markets (both up 8% abs). The weakest Consumer Discretionary companies were in Developed Asia (-2% abs), followed by Japan and the US (both +3% abs). Within the sector, Autos was the strongest (+8% abs), while Media was the weakest (+1%). The sector's earnings momentum has slowed down recently. However, EPS growth forecasts are still high and above those of the global market for 2011E (+18%) and 2012E (+21%). Two years of outperformance has made Consumer Discretionary one of the most expensive sectors. It trades at a 20% premium on 2011E & 2012E PEs, 15% price to book, and a 30% DY discount. The sector has a low mega-cap weight and has not been a big equitiser. However, slower earnings momentum and expensive valuations mean we remain Neutral. Our analysts are buyers of Richemont, Nike, Daimler and LVMH.

Performance

The strongest cyclical sector in 2Q11

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

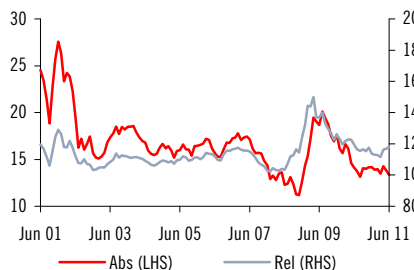


Source: CIRA, MSCI, Factset

Valuation

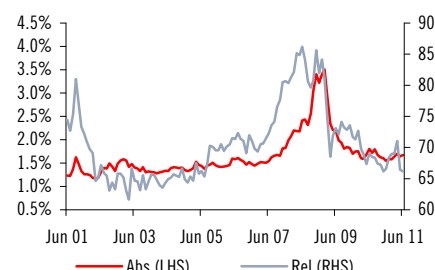
20% PE premium

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

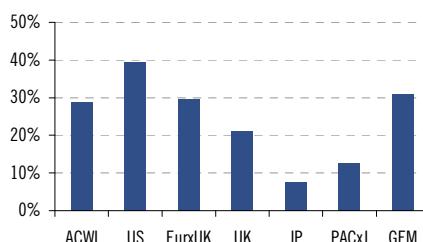


Source: CIRA, MSCI, Factset

Regional Breakdown

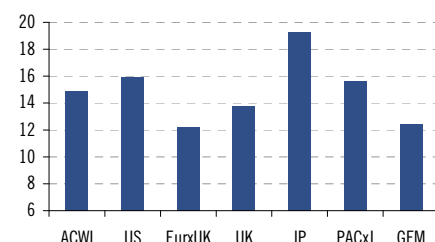
Europe & GEMs the cheapest on fwd PE

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

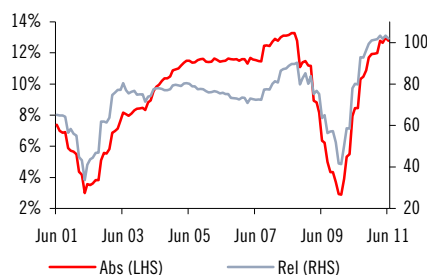
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	17.6	14.9	12.3	143.5	18.0	21.1	8.0	1.3	1.9
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	4.5	6.1	37.4	3.3	4.0	28.8	12.8	2.1	1.7
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

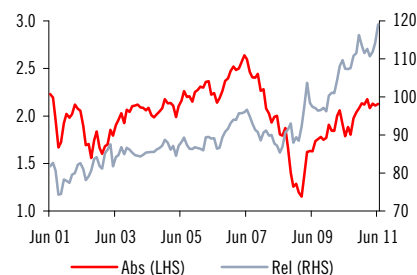
Sharp recovery in profitability

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

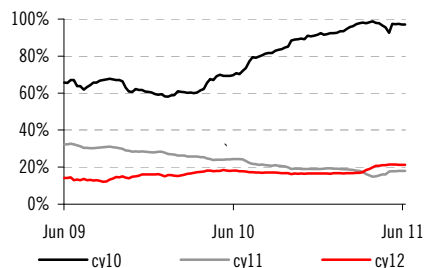


Source: CIRA, MSCI, Factset

Earnings

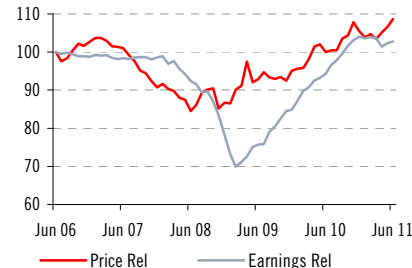
Strong earnings growth
forecast in 2011 & 2012

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
McDonald's	2L	3.0	88	15.8	Toyota Motor	JP	2M	3.8	113	18.0
Amazon.com Inc	1H	2.5	74	65.1	Daimler	DE	1M	2.3	68	9.1
Walt Disney Co	2M	2.4	70	13.5	Honda Motor	JP	2M	2.1	62	12.9
Home Depot Inc	1M	2.0	59	14.7	LVMH	FR	1M	1.5	44	19.1
Comcast A	1M	1.8	52	14.4	Hennes & Mauritz	SE	2M	1.2	35	19.6
Ford Motor	1H	1.6	49	7.1	Vivendi	FR	1M	1.2	34	7.7
DirecTV	2M	1.4	40	13.5	Hyundai Motor	KR	1M	1.2	34	8.8
Time Warner	1M	1.3	40	12.3	Richemont	CH	1M	1.1	34	17.8
Nike Inc	1L	1.1	33	18.5	BMW	DE	1M	1.1	33	9.9
News Corp	1M	1.1	32	13.3	Restricted	DE		1.0	30	8.2

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Consumer Staples

Underweight

Weight in MSCI AC World 9.5%
Market Cap (US\$) 2,782 Bn

Regional Weight Breakdown

US	47.0%
Europe x UK	20.7%
UK	12.9%
Emerging Markets	9.6%
Japan	4.4%
Dev Asia	4.0%

Industry Group Weight Breakdown

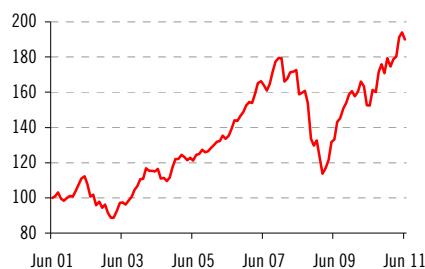
Food & Staples Retailing	22.8%
Food Beverage & Tobacco	61.2%
Household & Personal	16.0%

After disappointing performance in 1Q11, Consumer Staples was the second strongest sector in 2Q11, outperforming the global benchmark by 6% (+5% abs). All of the regions performed well with Japanese and UK companies being the strongest (+8% abs), followed by Emerging Markets (+6% abs), while the US lagged (+5%). However, we think outperformance was temporary and partly due to high risk aversion in 2Q. The sector has previously performed poorly during periods of rising bond yields (a core assumption for us in 2H11). It is now suffering poor earnings trends. Analysts are putting through more earnings downgrades than upgrades. Meanwhile, EPS growth expectations are below the global benchmark. For 2011, sector EPS are forecast to grow by 9% and by 11% in 2012. In addition to lagging earnings growth, the sector is not cheap. It is the most expensive on 2011E and 2012E PEs (25% premium) and price to book (65% premium). Some of this premium valuation may be justified, we think, by structurally high profitability. Also, the sector has considerable exposure to the fast growing Emerging Markets consumer. However, sluggish earnings momentum, expensive valuations and sensitivity to rising bond yields keep us Underweight. Our analysts are buyers of Seven & I and Archer Daniels.

Performance

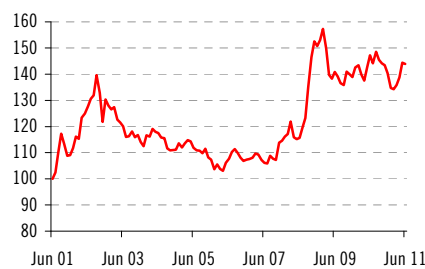
Outperformer in 2Q11

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

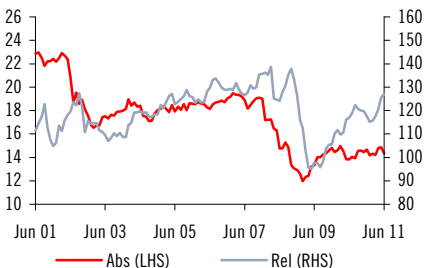


Source: CIRA, MSCI, Factset

Valuation

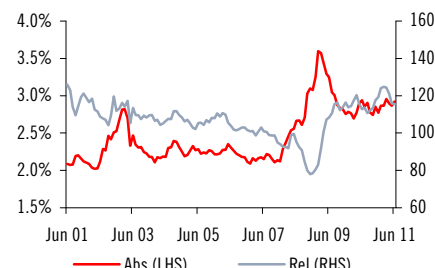
25% PE premium

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

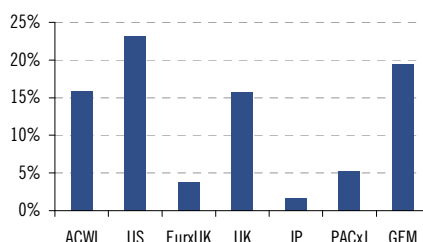


Source: CIRA, MSCI, Factset

Regional Breakdown

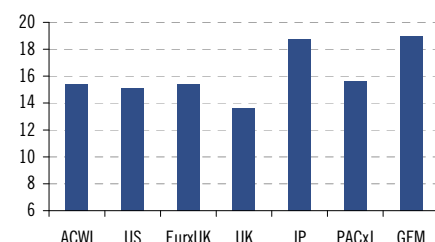
US strongest

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

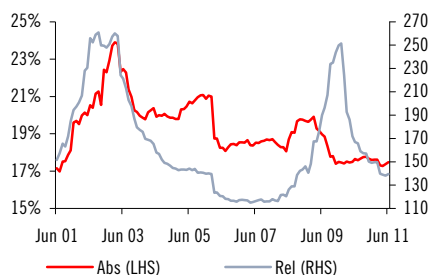
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	16.8	15.4	13.9	11.3	9.1	11.2	9.4	1.5	3.0
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	5.4	6.0	24.6	3.9	3.2	15.8	17.5	2.9	2.9
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

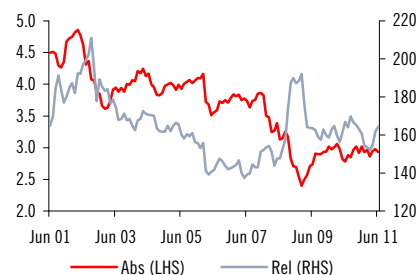
Still P/BV premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

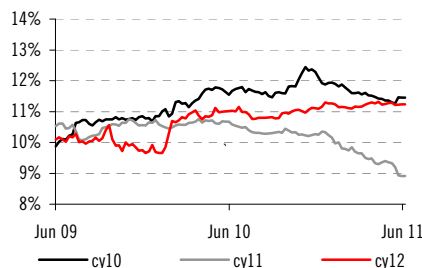


Source: CIRA, MSCI, Factset

Earnings

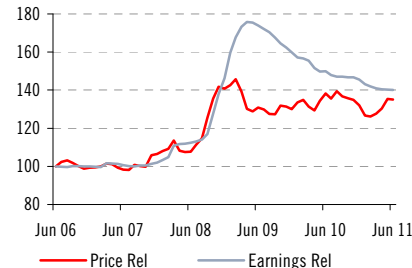
Relative earnings momentum deteriorating

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Procter & Gamble	1L	6.4	178	14.9	Nestle	CH	2L	7.7	215	15.4
Coca-Cola Co	1L	5.0	139	16.5	Brit Am Tobacco	GB	2L	3.1	88	13.5
Philip Morris	2L	4.3	120	13.8	Unilever NV	NL	1L	1.9	53	13.9
Pepsico Inc	2L	4.0	112	15.0	Tesco	GB	3M	1.9	52	10.8
Wal Mart	1M	3.7	104	11.4	Diageo	GB	2L	1.8	51	14.6
Kraft Foods Inc	1M	2.1	59	14.9	InBev	BE	1M	1.7	47	14.4
Altria Group Inc	2M	2.0	55	12.5	Danone	FR	2L	1.6	43	16.2
CVS	1M	1.8	51	12.7	Unilever	GB	1L	1.5	41	14.0
Colgate	1L	1.6	43	16.5	Woolworths Ltd	AU	1L	1.3	36	14.4
Walgreen	2M	1.4	39	14.3	SABMiller	GB	2M	1.2	35	16.2

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Health Care

Underweight

Weight in MSCI AC World 8.6%
Market Cap (US\$) 2,534 Bn

Regional Weight Breakdown

US	58.0%
Europe x UK	22.9%
UK	8.2%
Japan	5.5%
Emerging Markets	1.6%
Dev Asia	1.2%

Industry Group Weight Breakdown

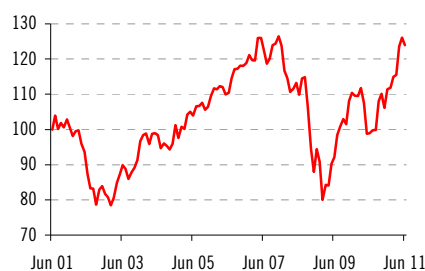
Health Care Equipment & Services	25.8%
Pharma & Biotech	74.2%

Health Care consists mostly of Pharma and Biotech companies (75% weight). Equipment and Service companies account for the remaining quarter. Health Care was the best performing sector in 2Q11, rallying 7% (abs) as a result of reduced risk appetite and capital flow to the defensive names. It is the best performing sector YTD as well (11% abs). The Continental Europe and UK companies were the strongest over the quarter (+10% abs), while Emerging Markets and Japanese companies were the weakest (+2% abs). Pharma & Biotech outperformed Equipment & Services by 2%. Earnings trends for the sector look uninspiring. EPS is forecast to grow by single digit rates in 2011 and 2012. In 2012, EPS growth is expected to be the poorest of all sectors (+6%). If the economic recovery continues, prospects of earnings outperformance from this defensive sector remain low. After recent outperformance, valuations are not cheap anymore. The sector trades in line with the market on 2011E PE and 5% premium on 2012E PE. Not-so-cheap valuations, recent outperformance, poor earnings trends and our expectation of rising bond yields mean we downgrade the sector to Underweight. Our analysts are buyers of Johnson & Johnson, Novartis, United Health Group.

Performance

Best performer in 2Q & YTD

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

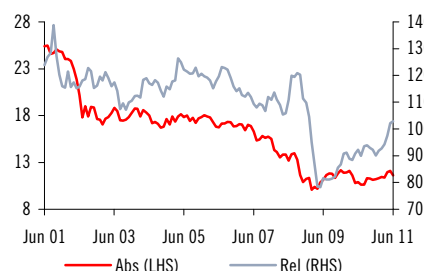


Source: CIRA, MSCI, Factset

Valuation

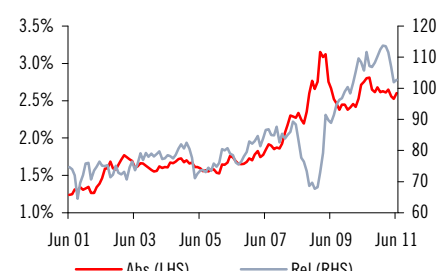
Small premium on fwd PE

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

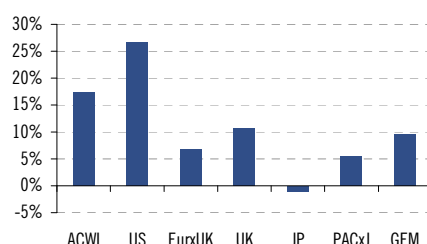


Source: CIRA, MSCI, Factset

Regional Breakdown

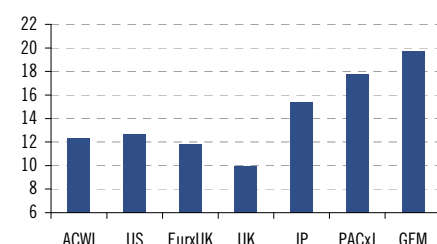
US outperformed strongly

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

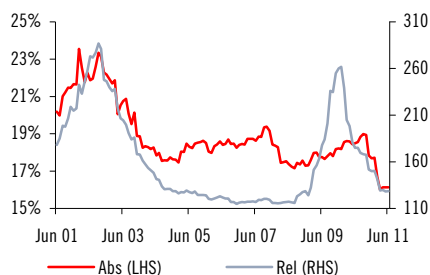
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	13.3	12.4	11.6	8.4	7.9	6.4	8.8	2.0	2.7
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	7.3	11.2	25.2	5.8	8.6	17.5	16.1	2.7	2.6
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

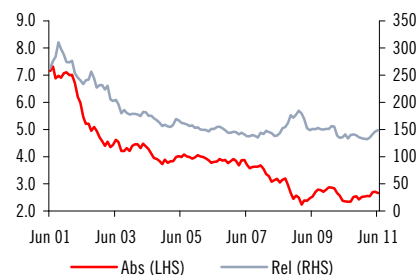
Deteriorating RoE

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

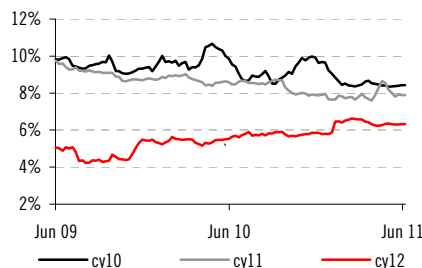


Source: CIRA, MSCI, Factset

Earnings

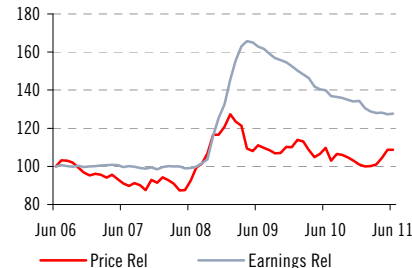
Weak earnings momentum

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Johnson&Johnson	1L	7.2	182	13.0	Novartis	CH	1L	5.6	143	10.6
Pfizer Inc	2H	6.5	165	9.1	Roche	CH	2M	4.6	117	10.2
Merck	2M	4.3	109	9.3	GlaxoSmithKline	GB	2L	4.4	111	11.3
Abbott Labs	3M	3.2	81	11.0	Sanofi-Aventis	FR	1M	3.5	90	8.5
UnitedHealth Grp	1L	2.2	56	11.6	AstraZeneca	GB	1M	2.7	69	7.5
Amgen Inc	1M	2.1	54	10.9	Bayer	DE	1M	2.6	66	11.2
Bristol Myers	1M	1.9	49	13.6	Novo-Nordisk	DK	1M	2.1	53	20.7
Medtronic Inc	1M	1.6	41	10.9	Teva	IL	1H	1.8	45	9.0
Eli Lilly and Co	2H	1.5	39	9.4	Takeda Chem	JP	1M	1.4	36	12.2
Baxter Intl	3M	1.4	35	13.4	CSL Ltd	AU	1M	0.8	19	16.6

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Financials

Neutral

Weight in MSCI AC World 20.3%
Market Cap (US\$) 5,956 Bn

Regional Weight Breakdown

US 30.7%
Europe x UK 18.7%
Emerging Markets 16.5%
Dev Asia 11.8%
UK 8.1%
Japan 6.6%

Industry Group Weight Breakdown

Banks 46.4%
Diversified Financials 22.5%
Insurance 19.3%
Real Estate 11.9%

Financials posted another quarter of disappointing returns. The sector was down 3% in 2Q11 (both abs. & rel.) and underperformed for the fifth consecutive quarter. Within sub-sectors, Div. Fins. & Banks were the worst performers, with Real Estate the best. Across regions, US and Continental Europe were the weakest (-6% & -4% abs), while Japanese Financials performed best. The sector's poor performance was influenced by concerns over subdued economic growth and the European sovereign crisis, uncertainty about the regulatory issues and worries of earlier rate hikes by major central banks. Earnings momentum has recently stabilised and EPS is expected to grow by 14% in 2011 (below the global growth forecast) and 19% in 2012 (above global benchmark). As the industry addresses the excesses of the previous cycle (too much leverage), EPS trends are likely to remain uninspiring. On a positive note, valuations look cheap. The sector trades at a 10% discount on 2011E & 2012E PEs and 35% P/BV discount. Despite ongoing concerns on the EMU crisis, some clarification on regulations and cheap valuations convince us to move from our Underweight position to Neutral. Our analysts like Goldman Sachs, MetLife, PZU, China Merchants Bank and National Australia Bank.

Performance

An underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

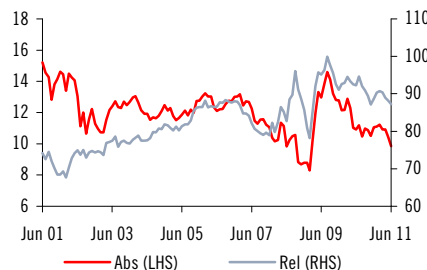


Source: CIRA, MSCI, Factset

Valuation

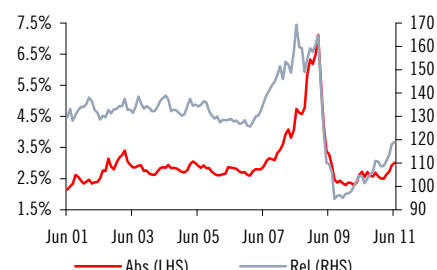
10% discount on forward PE

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

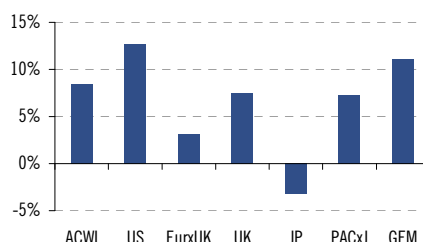


Source: CIRA, MSCI, Factset

Regional Breakdown

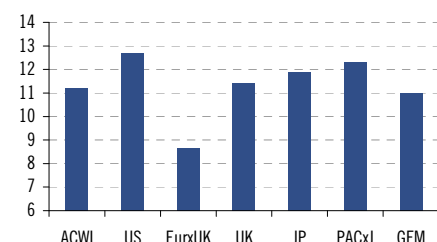
Continental Europe cheapest

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

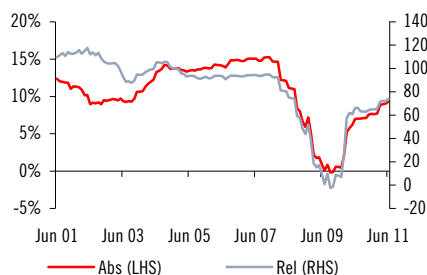
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	12.7	11.2	9.4	70.8	13.6	18.9			3.2
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-3.5	-0.3	18.2	-4.7	-2.9	8.4	9.3	1.1	3.0
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

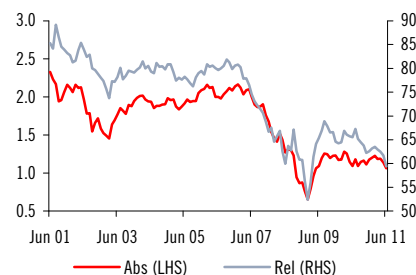
Large P/BV discount

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

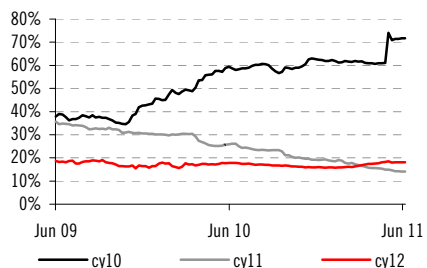


Source: CIRA, MSCI, Factset

Earnings

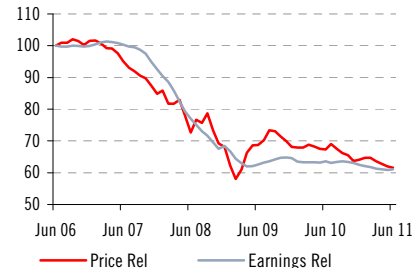
EPS momentum weak

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
JP Morgan Chase	1M	2.7	163	7.8	HSBC	GB	1M	3.0	176	9.8
Wells Fargo	2H	2.4	140	9.1	Santander	ES	2M	1.6	97	7.0
Citigroup		2.0	121	N/A	Comm Bk of Aus	AU	2M	1.5	87	11.3
Bank of America	1H	1.9	111	7.9	Royal Bk Canada	CA		1.4	81	11.3
Berkshire		1.2	70	15.6	Toronto Dominion	CA		1.3	75	11.4
Goldman Sachs	1H	1.1	66	8.1	BNP Paribas	FR	1M	1.2	74	6.8
American Express	1M	0.9	56	12.9	Westpac	AU	2M	1.2	72	10.1
US Bancorp	1M	0.8	49	10.8	UBS	CH	1M	1.1	66	7.8
MetLife Inc	1M	0.8	46	8.0	Bank Nova Scotia	CA		1.1	65	12.0
Simon Prop Grp	2M	0.6	34	42.7	Allianz	DE	1M	1.1	63	7.9

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

IT

Overweight

Weight in MSCI AC World 11.3%
Market Cap (US\$) 3,321 Bn

Regional Weight Breakdown

US 68.5%
Emerging Markets 14.5%
Japan 9.1%
Europe x UK 6.1%
UK 0.8%
Dev Asia 0.2%

Industry Group Weight Breakdown

Software & Services 41.4%
Tech Hardware 40.1%
Semiconductors 18.5%

IT is composed of Software & Services, Hardware and Semiconductors. Less than 20% of the sector is found in regions outside of North America and Asia. IT was the third weakest sector in 2Q11, underperforming by 1% (-2% abs). Within the sector, Software was flat while Tech Hardware and Semiconductors were both down 4%. Emerging Markets and Continental Europe were the laggards amongst the regions, both underperforming by 3%. Sector EPS are forecast to rise by 12% in 2011 and 14% in 2012, close to the global benchmark. The sector has been at the heart of the de-equitisation trade. Cash flow remains exceptionally strong, cash piles for some companies are substantial, balance sheets are clean and the cost of credit for large companies is low. Some of this cash has been spent on buyback shares or M&A. Despite double digit EPS growth and clear signs of de-equitisation, the sector is trading on only a 5% premium on 2011E and 2012E PEs. The sector usually trades at a higher premium and we find valuations attractive at current levels. We expect IT to benefit from rising bond yields (a core assumption for us in 2H11). We remain Overweight. Our preferred stocks include Samsung Electronics, Texas Instrument and UMC.

Performance

A recent underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

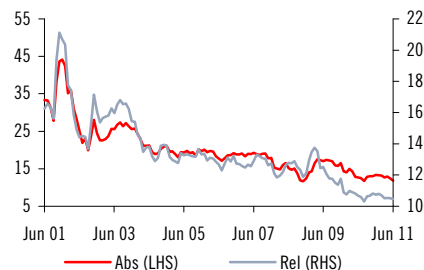


Source: CIRA, MSCI, Factset

Valuation

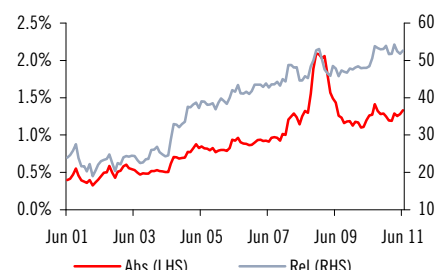
De-rating

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

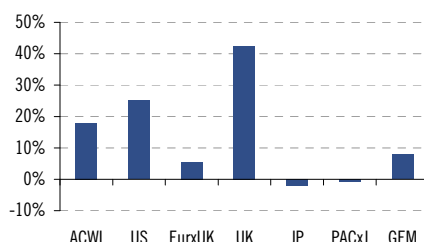


Source: CIRA, MSCI, Factset

Regional Breakdown

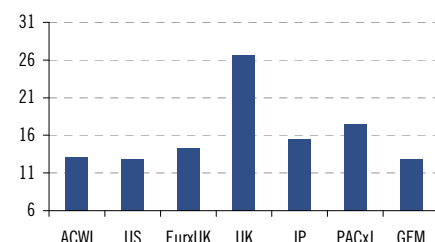
UK expensive after strong performance

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

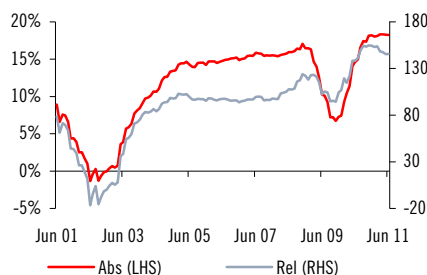
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	14.7	13.1	11.5	65.8	12.3	14.3	8.0	1.7	1.4
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-2.0	-0.5	22.3	-2.6	-1.4	17.9	18.2	2.7	1.3
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

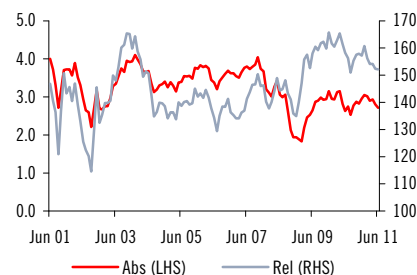
High price to book premium

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

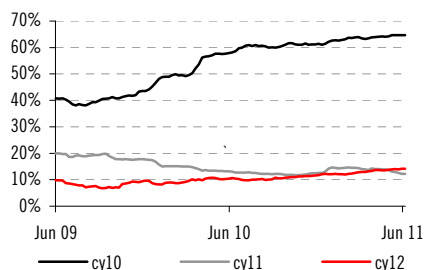


Source: CIRA, MSCI, Factset

Earnings

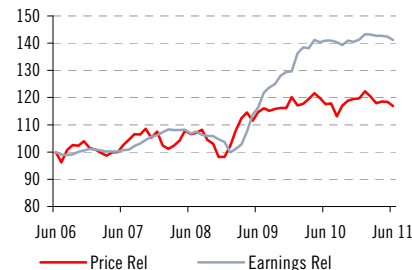
Relative earnings momentum flattening out

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Apple Inc	1H	9.3	309	12.1	Samsung Elec	KR	1L	2.6	85	8.6
IBM	1M	6.3	209	12.3	TSMC	TW	1L	1.9	62	11.4
Microsoft	1L	5.9	197	9.4	SAP AG	DE		1.7	56	14.7
Oracle Corp	1L	4.0	133	13.5	Canon Inc	JP	1M	1.6	53	16.1
Google	2H	3.8	127	13.8	Ericsson	SE	2H	1.3	44	13.7
Intel	1M	3.7	122	9.5	Hon Hai Precision	TW	1L	0.8	28	10.5
Qualcomm Inc	1M	2.8	93	16.6	Infosys Tech	IN	2L	0.8	28	19.7
Cisco Systems	2M	2.6	86	9.1	Tencent	CN	1L	0.8	27	25.5
Hewlett-Packard	1M	2.4	79	6.9	Hitachi Ltd	JP	2H	0.8	26	9.3
EMC Corp	1M	1.7	57	17.1	Nokia	FI	3H	0.7	24	17.7

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Telecom Services

Underweight

Weight in MSCI AC World 4.6%
Market Cap (US\$) 1,352 Bn

Regional Weight Breakdown

US 29.1%
Europe x UK 22.9%
Emerging Markets 21.5%
UK 12.3%
Japan 7.6%
Dev Asia 3.0%

Industry Group Weight Breakdown

Telecom Services 100.0%

Telcos was flat in 2Q11, in-line with the market and outperformed by 1% in 2H11. There was a large performance spread between the regions. Continental European and UK stocks were the worst performers (-4% abs). Japan was the strongest (+2% abs), while the US and EM were flat. The sector has recently benefitted from companies selling assets and returning capital. Telecoms, a bond proxy, often does well when yields are falling and badly when they rise. Yields were down over the 2Q, helping sector performance. As our bond strategists forecast yields to rise through 2H11, the sector may struggle from here. Outperformance in 1H drove valuations higher. The sector now trades in-line with the market on the 2011E PE; on a small premium on the 2012E PE and price to book; and on a larger premium on EV/Sales. The dividend yield at 5.4% is twice the global average but the payout ratio is also higher. The earnings growth outlook is uninspiring with EPS forecast to grow by 6% in 2011 and 9% in 2012, one of the weakest among all global sectors. With the sector's sensitivity to higher bond yields, lacklustre EPS growth and higher valuations, we stay Underweight. Our analysts are buyers of Vodafone, China Mobile, Deutsche Telekom and AT&T.

Performance

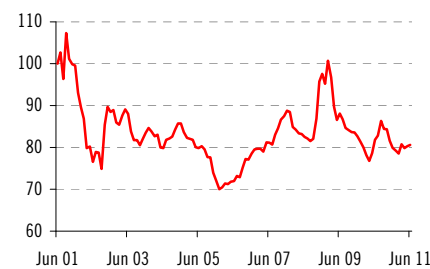
Flat over 2Q11

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

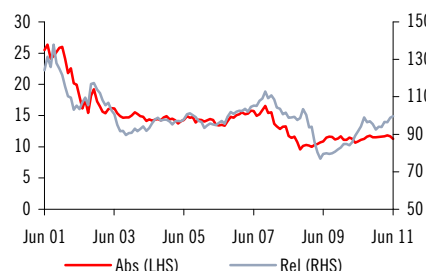


Source: CIRA, MSCI, Factset

Valuation

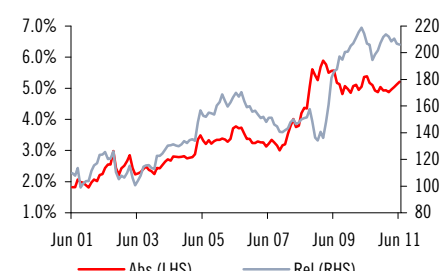
Dividend yield 2x market

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

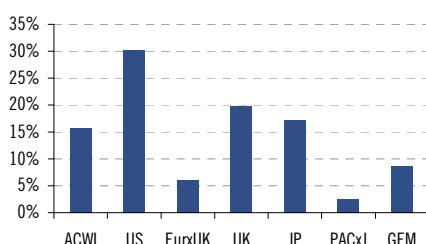


Source: CIRA, MSCI, Factset

Regional Breakdown

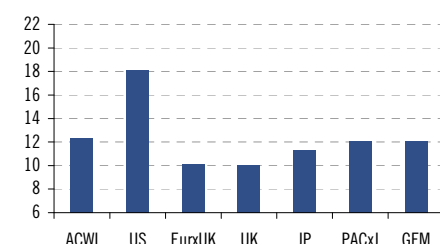
US most expensive

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

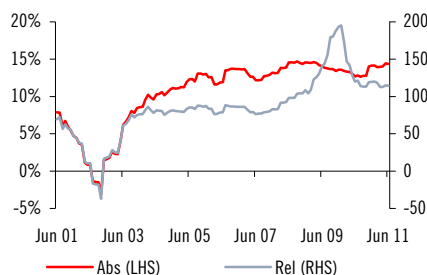
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	13.1	12.3	11.4	3.5	6.3	8.6	5.7	1.9	5.4
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	-0.8	4.3	25.5	-1.8	1.3	15.7	14.4	1.8	5.2
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

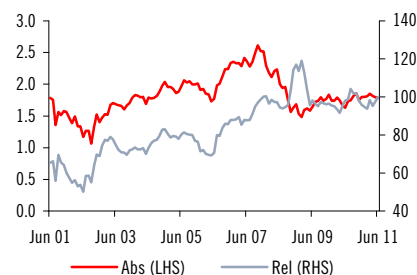
Decent RoE

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

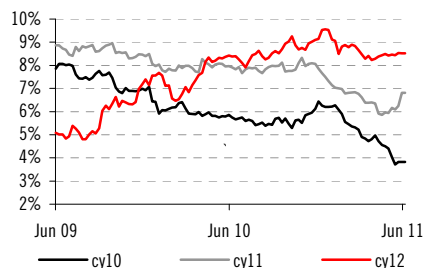


Source: CIRA, MSCI, Factset

Earnings

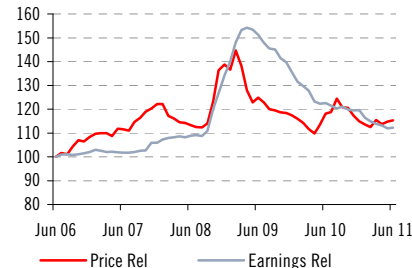
Uninspiring earnings outlook

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
AT&T	1M	13.7	186	12.8	Vodafone	GB	1L	10.2	137	10.0
Verizon Comms	2M	7.7	104	15.4	Telefonica	ES	2M	7.4	100	9.2
CenturyLink	1M	1.8	24	14.8	China Mobile	CN	1L	4.1	56	9.7
American Tower	1H	1.5	21	45.5	America Movil	MX	1M	3.9	53	6.2
Sprint Nextel	1S	1.2	16	-9.2	Deutsche Tele	DE	1L	3.3	44	13.9
Crown Castle	2H	0.9	12	67.8	France Telecom	FR	2L	2.9	39	8.8
Frontier Com	2S	0.6	8	27.4	MTN Group Ltd	ZA	1H	2.7	36	11.9
NII Holdings	1H	0.5	7	15.6	SoftBank	JP	1M	2.4	32	12.6
Windstream	1H	0.5	7	16.0	NTT DoCoMo	JP	1L	2.0	27	11.4
SBA Comms	2H	0.3	4	-62.5	BT Group	GB	1M	1.9	25	9.2

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Utilities

Neutral

Weight in MSCI AC World 3.8%
Market Cap (US\$) 1,107 Bn

Regional Weight Breakdown

US 37.4%
Europe x UK 26.6%
Emerging Markets 12.8%
UK 9.2%
Japan 7.9%
Dev Asia 4.6%

Industry Group Weight Breakdown

Utilities 100.0%

Utilities outperformed the market in 2Q11 by 1% rel and the sector was flat in absolute. It was only the second time in ten quarters the sector outperformed. Last time was in 2Q10. The sector saw the largest performance spread between the regions (20%). Earthquake-affected Japanese Utilities were by far the biggest losers (-11% abs), followed by Continental European (-5% abs). US stocks were up 5%. Global Utilities continued to suffer from the Japan earthquake fallout and nuclear generation concerns. The sector is another classic "bond proxy". We forecast bond yields to rise which may mean weaker performance from here. However, eight out of ten quarters of underperformance means valuations are not elevated. The sector trades at a 25% price to book discount and 10% premium on 2011E & 2012 PEs. Meanwhile, a high payout ratio ensures a dividend yield which is almost double the market average. The earnings growth outlook is uninspiring with EPS forecast to contract by 2% in 2011 and rebound 17% in 2012, one of the weakest among all sectors. Earnings momentum is the worst of all sectors and so are analysts' earnings revisions. Cheap valuations keep us Neutral. Stocks our analysts like include Southern Co, GDF Suez.

Performance

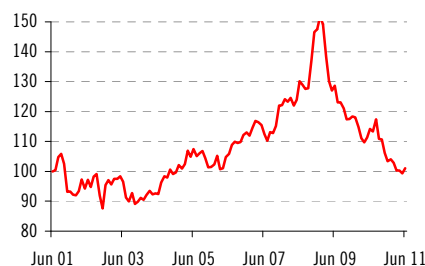
At last, a better quarter

Price Performance (US\$)



Source: CIRA, MSCI, Factset

Relative Price Performance (US\$)

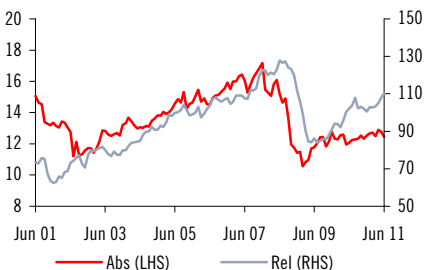


Source: CIRA, MSCI, Factset

Valuation

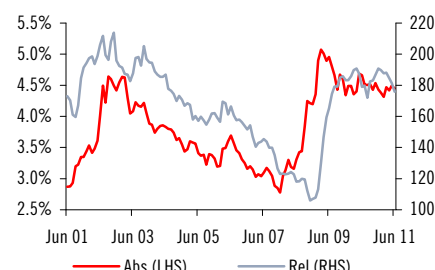
High dividend yield

12Mth Forward PE



Source: CIRA, Factset Consensus

Dividend Yield

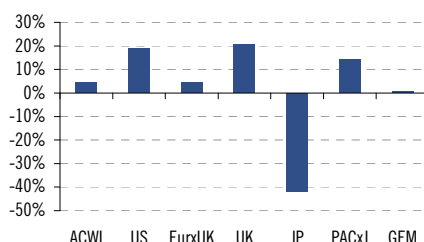


Source: CIRA, MSCI, Factset

Regional Breakdown

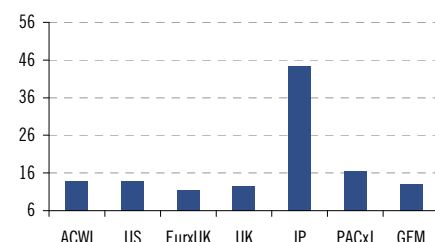
Japan worst performer

12Mth Performance (Loc)



Source: CIRA, MSCI, Factset

2011 Forward PE



Source: CIRA, Factset Consensus

Key Metrics

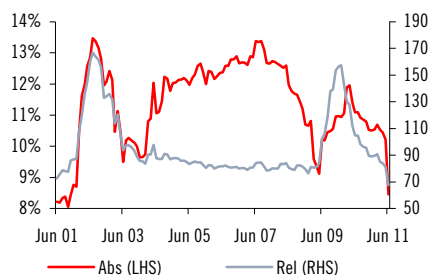
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Sector	12.7	13.7	12.7	-10.5	-2.3	17.1	7.2	1.6	4.6
MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Sector	0.2	1.0	12.8	-0.9	-1.9	4.5	8.5	1.3	4.4
MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Profitability

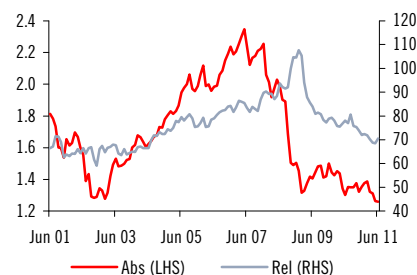
Sharp fall in RoE

Return on Equity



Source: CIRA, MSCI, Factset

Price to Book

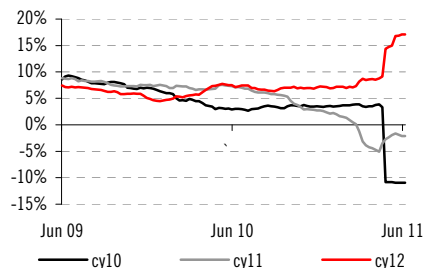


Source: CIRA, MSCI, Factset

Earnings

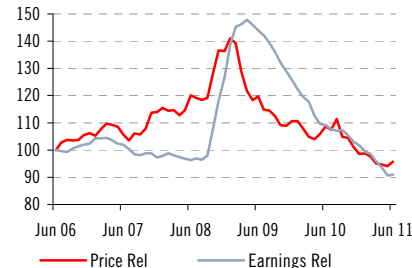
Weak relative earnings momentum

Growth Forecast Trends



Source: CIRA, Factset Consensus

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Southern Co	1L	3.0	34	15.5	E.ON	DE	2H	4.6	51	10.5
Exelon Corp	2M	2.6	28	12.1	GDF Suez	FR	1M	4.1	45	11.7
Dominion Rsc	2M	2.5	28	15.1	Enel	IT	2M	3.9	43	9.2
Duke Energy	2M	2.3	25	13.6	National Grid	GB	2M	3.1	34	11.9
NextEra Energy Inc	2M	2.1	23	12.5	Restricted	ES		3.0	34	11.7
FirstEnergy Corp	2M	1.7	18	13.3	Centrica	GB	2M	2.4	27	11.5
Amer Elec Pwr	2M	1.6	18	11.8	RWE	DE	3H	2.1	23	7.9
PG&E	2L	1.5	17	11.6	Scot & Sth Enrgy	GB	2L	1.9	21	11.7
Public Srvc Ent	2M	1.5	17	12.7	CLP Holdings	HK	2L	1.5	17	15.7
PPL Corp	2M	1.4	16	11.0	Kansai Elec Pwr	JP	1S	1.3	15	14.8

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

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Sectors - Level 2

Please refer to pages 84 and 85 for how to read this section

Energy

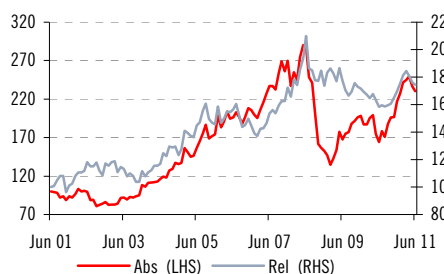
Weight in MSCI AC World	11.8%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	3,472 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	13.2	10.4	9.6	35.3	26.8	8.8		6.5	1.2	2.6	
US	45.8%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Emerging Markets	16.7%												
UK	13.8%		US\$ Perf.			Loc. Perf.						Trail	
Europe x UK	9.8%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
Dev Asia	1.9%												
Japan	1.2%	Sector	-6.0	6.3	40.3	-6.7	4.0	32.3		13.1	1.8	2.4	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

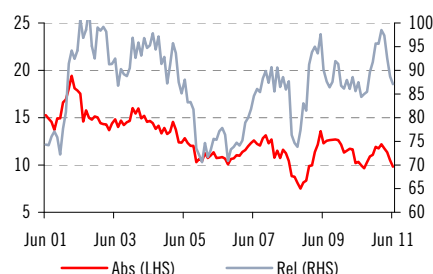
Fwd PE discount widening

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

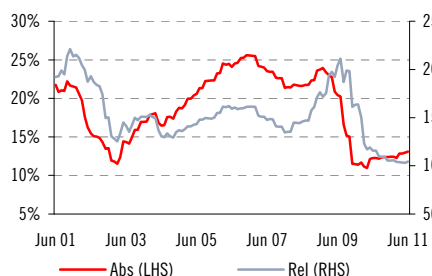


Source: CIRA, Factset Consensus

Profitability/Earnings

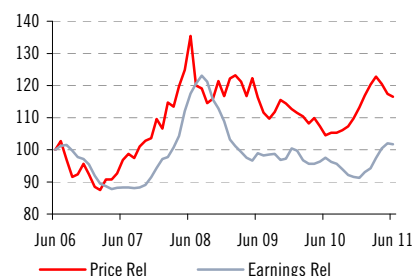
Earnings momentum improving

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
ExxonMobil	1M	11.6	404	9.1	BP	GB	2M	4.0	138	6.0
Chevron	1M	5.9	206	7.9	RD Shell Class A	GB	1M	3.7	127	7.9
Schlumberger Ltd	1M	3.4	118	19.5	Total	FR	3M	3.5	122	7.0
ConocoPhillips	2H	2.9	102	8.8	RD Shell Class B	GB	1M	2.8	96	7.8
Occidental	2M	2.4	85	11.2	Gazprom	RU	1M	2.2	78	4.1
Apache	1M	1.4	47	9.7	BG	GB	1M	2.2	77	15.7
Halliburton Co	1H	1.3	47	14.7	Petrobras-A	BR	1H	1.8	64	8.2
Anadarko Petro	1H	1.1	38	20.3	Suncor Energy	CA		1.8	61	11.6
Marathon Oil	1M	1.1	37	8.3	ENI	IT	2M	1.6	57	6.9
National Oilwell Varco	1H	0.9	33	16.5						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Materials

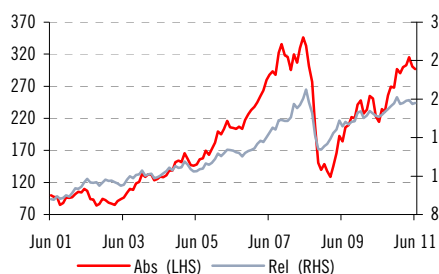
Weight in MSCI AC World		9.1%		Key Metrics			PE			EPS YoY			EV /		EV /		Fwd													
Market Cap (US\$)		2,672 Bn					10E			11E			12E			EBITDA		Sales		DY										
Regional Weight Breakdown				Sector			15.6			11.3			10.0			81.2			38.9			12.9			8.1		1.8		2.2	
Emerging Markets		22.2%		MSCI AC World			14.4			12.4			10.9			43.9			16.3			14.0			7.8		1.5		2.7	
US		18.7%																												
Europe x UK		17.1%																												
UK		13.3%																												
Dev Asia		11.1%																												
Japan		6.7%																												
				Sector			-1.9			0.0			38.3			-3.5			-3.2			24.3			14.1		2.1		1.8	
				MSCI AC World			-0.5			3.4			27.4			-1.7			1.0			18.6			12.5		1.8		2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

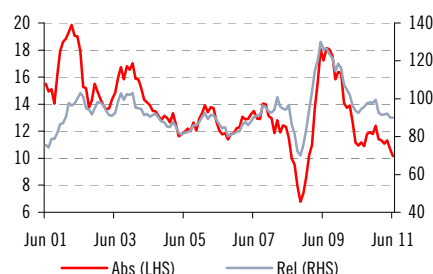
Recent underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

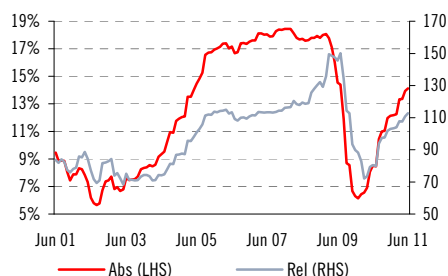


Source: CIRA, Factset Consensus

Profitability/Earnings

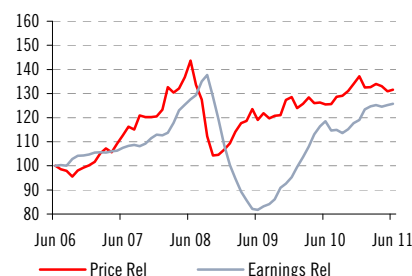
Strong earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
DuPont	1M	1.9	50	13.1	BHP Billiton	AU	1M	5.6	151	9.4
Freeport McMoran	2H	1.9	50	8.6	Rio Tinto	GB	1M	3.9	104	7.4
Dow Chemical	1H	1.6	42	10.8	BASF	DE	1M	3.4	90	10.2
Monsanto	1M	1.5	39	22.0	BHP Billiton	GB	1M	3.2	86	8.0
Praxair	1M	1.2	33	18.5	Anglo American	GB	1M	2.4	65	7.3
Newmont Mining	2M	1.0	26	12.3	Vale (Pref)	BR	1M	2.1	57	5.6
Air Prods & Chem	1M	0.8	21	15.1	Potash Saskatchewan	CA	1M	1.8	49	15.4
Mosaic	1H	0.7	19	11.9	Xstrata	GB	1M	1.7	46	7.5
ALCOA	2H	0.6	17	11.1	Barrick Gold	CA	1M	1.7	45	10.0
PPG Industries	2M	0.5	15	13.2						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Capital Goods

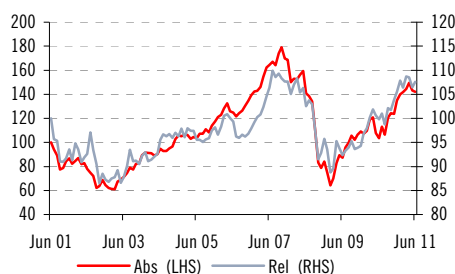
Weight in MSCI AC World		8.3%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)		2,437 Bn		10E	11E	12E		10E	11E	12E		EBITDA	Sales	DY
Regional Weight Breakdown			Sector	16.3	13.2	11.5		39.6	24.0	14.9		10.2	1.3	2.4
US	43.6%		MSCI AC World	14.4	12.4	10.9		43.9	16.3	14.0		7.8	1.5	2.7
Europe x UK	24.9%													
Japan	14.9%													
Emerging Markets	9.5%													
UK	3.1%													
Dev Asia	2.7%													

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

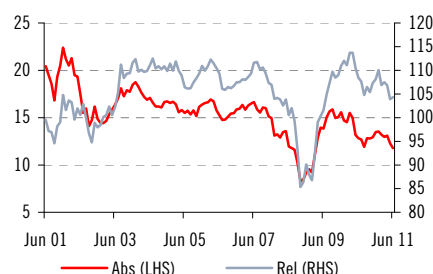
5% PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

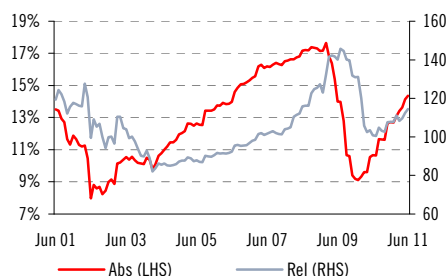


Source: CIRA, Factset Consensus

Profitability/Earnings

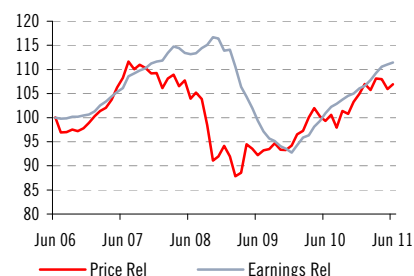
Strong earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
General Electric	1M	8.2	200	12.5	Siemens AG	DE	1H	4.6	113	11.6
United Tech	2M	3.2	77	15.3	ABB	CH	1H	2.3	57	15.6
Caterpillar Inc	2M	2.8	68	13.4	Schneider Elec	FR	2H	1.7	41	12.4
3M Co	2M	2.6	64	14.2	Mitsubishi Corp	JP	1M	1.4	34	6.4
The Boeing Co	1H	2.1	52	15.7	Fanuc Ltd	JP	1M	1.3	32	17.9
Honeywell Intl	2M	1.8	44	14.0	Mitsui & Co Ltd	JP	1M	1.2	30	5.2
Emerson Electric	2M	1.7	42	15.1	Komatsu	JP	1M	1.2	29	11.7
Deere and Co	1M	1.4	35	11.7	Vinci	FR	1L	1.2	28	12.2
Danaher Corp	1M	1.2	30	18.0	Saint Gobain	FR	1M	1.1	26	11.7
Illinois Tool	1M	1.0	25	13.2						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Commercial Services

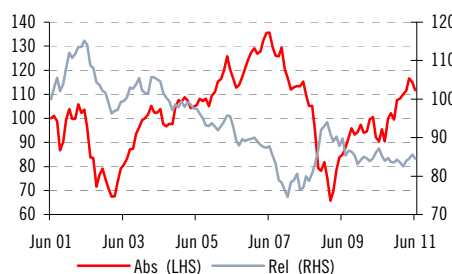
Weight in MSCI AC World	0.7%	Key Metrics	PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	207 Bn		10E	11E	12E	10E	11E	12E	EBITDA	Sales	DY
Regional Weight Breakdown		Sector	18.6	16.7	14.4	15.1	11.8	15.6	9.1	1.3	2.6
US	40.3%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
UK	23.3%										
Europe x UK	19.3%		US\$ Perf.			Loc. Perf.					Trail
Japan	10.0%		3m	6m	12m	3m	6m	12m	ROE	P / BV	DY
Dev Asia	5.4%										
Emerging Markets	0.4%	Sector	0.2	3.8	23.6	-1.2	1.2	14.4	14.1	2.7	2.3
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

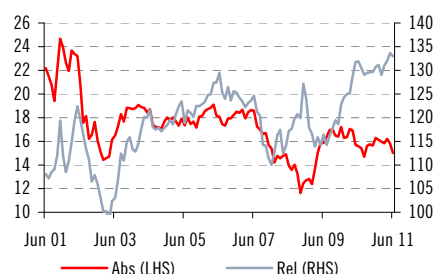
35% PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

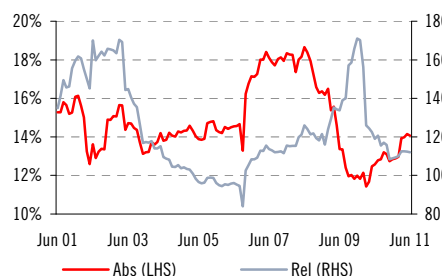


Source: CIRA, Factset Consensus

Profitability/Earnings

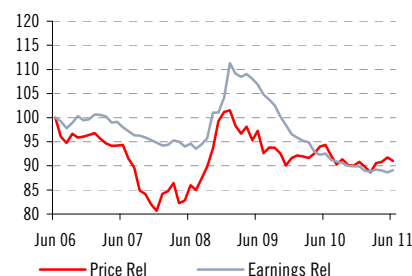
Earnings momentum weak

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Waste Management		8.1	17	15.5	Experian Group	GB		6.2	13	15.5
Republic Svcs		4.6	9	15.2	Brambles	AU	2M	5.4	11	16.7
Stericycle		3.5	7	29.5	SGS	CH	2M	5.0	10	18.3
Iron Mntn Grp	2H	3.0	6	25.2	Secom	JP		4.8	10	14.1
Pitney Bowes Inc		2.3	5	10.0	Aggreko	GB	1M	4.1	9	21.5
Manpower Inc	1H	2.1	4	14.5	Adecco	CH	1M	4.1	8	13.0
Cintas Corp	2H	2.1	4	17.8	Capita Group	GB	1M	3.4	7	13.9
Equifax		2.1	4	13.3	Group 4 Securicor	GB	1M	3.1	6	11.7
Verisk Analytics		2.0	4	19.9	Dai Nippon Print	JP		3.0	6	17.9
RR Donnelley Son		2.0	4	9.3						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Transportation

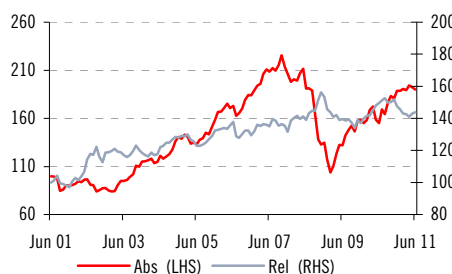
Weight in MSCI AC World	2.0%	Key Metrics	PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	582 Bn		10E	11E	12E	10E	11E	12E	EBITDA	Sales	DY
Regional Weight Breakdown		Sector	16.4	16.1	13.4	130.8	1.5	20.6	7.9	1.6	2.2
US	39.2%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
Europe x UK	16.3%										
Japan	16.3%										
Emerging Markets	11.3%										
Dev Asia	8.7%										
UK	0.0%										
		Sector	0.3	0.7	22.6	-1.0	-1.5	13.5	11.7	1.9	2.1
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

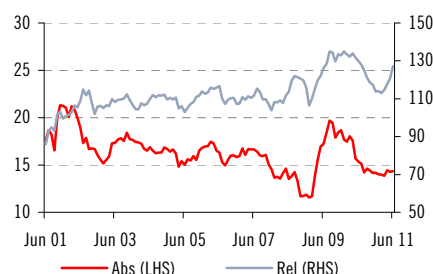
PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

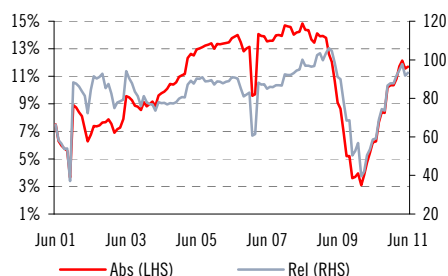


Source: CIRA, Factset Consensus

Profitability/Earnings

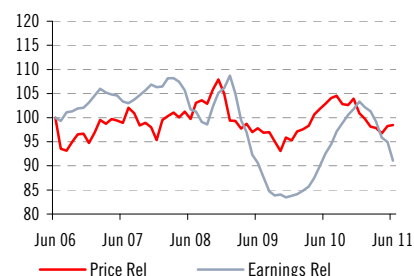
Relative earnings momentum
weakening

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
United Parcel	1L	9.2	54	15.6	Canadian Nat Rly	CA	2M	6.3	37	15.1
Union Pacific	1M	8.8	51	14.6	East Japan Rail	JP		3.3	19	14.8
CSX	1M	5.0	29	14.0	Deutsche Post	DE	2M	2.8	16	10.4
Fedex Corp	1M	4.9	28	14.1	Central Japan Rail	JP		2.0	12	10.7
Norfolk Southern	1M	4.6	27	14.2	APM Maersk	DK	1H	2.0	11	8.3
CH Robinson WW	2M	2.2	13	26.6	Can Pacific Rly	CA	2M	1.8	11	14.1
Expeditors		1.9	11	24.9	Abertis	ES	2M	1.4	8	15.0
JB Hunt Trans	2M	0.8	5	20.3	Kuehne & Nagel	CH	2M	1.4	8	19.8
Restricted		0.7	4	14.2	Transurban Group	AU	2M	1.3	7	76.9
Southwest Air	1H	0.4	2	13.1						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Autos & Components

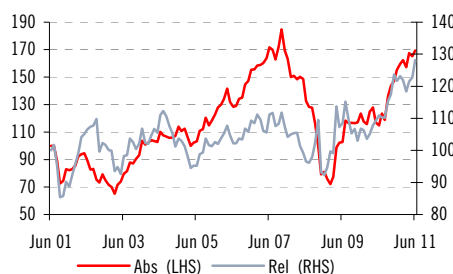
Weight in MSCI AC World	2.7%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	796 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	13.5	11.7	9.3	498.4	14.6	26.5		7.1	0.9	1.7	
Japan	37.2%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Europe x UK	26.7%												
Emerging Markets	17.6%		US\$ Perf.			Loc. Perf.						Trail	
US	17.1%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
UK	0.0%												
Dev Asia	0.0%	Sector	7.6	8.9	47.3	5.6	5.7	33.3		13.1	1.5	1.2	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

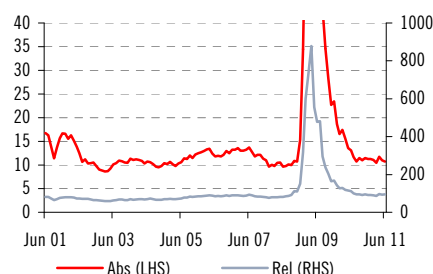
Strong performance

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

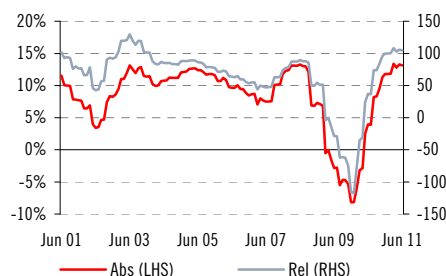


Source: CIRA, Factset Consensus

Profitability/Earnings

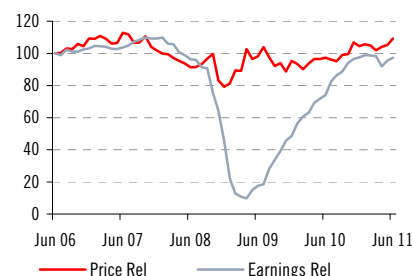
Recovering RoE

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Ford Motor	1H	6.1	49	7.1	Toyota Motor	JP	2M	14.2	113	18.0
Johnson Controls	2H	3.5	28	13.6	Daimler	DE	1M	8.6	68	9.1
General Motors Co	1H	3.0	24	6.8	Honda Motor	JP	2M	7.8	62	12.9
Harley Davidson	2H	1.2	10	17.0	Hyundai Motor	KR	1M	4.3	34	8.8
Borg Warner	2M	1.1	9	17.2	BMW	DE	1M	4.1	33	9.9
Autoliv	1M	0.9	7	10.8	Restricted	DE		3.7	30	8.2
TRW Auto Hldg		0.8	6	8.2	Nissan Motor	JP	1M	3.3	26	11.4
Goodyear Tire	1H	0.5	4	10.5	Hyundai Mobis	KR	1M	3.2	26	11.3
					Denso Corp	JP	1H	2.3	18	18.0

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Consumer Durables

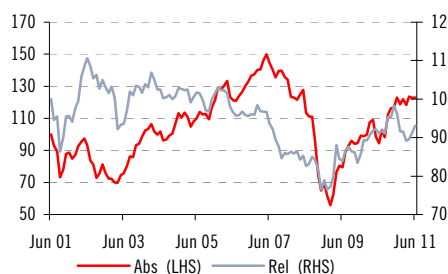
Weight in MSCI AC World	1.5%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	429 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	25.8	18.2	14.0	96.8	41.6	30.7		9.0	1.4	1.8	
Europe x UK	31.9%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
US	30.3%												
Japan	23.4%												
Emerging Markets	10.5%												
UK	2.4%												
Dev Asia	0.5%												
			US\$ Perf.			Loc. Perf.						Trail	
			3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
		Sector	3.8	-0.1	30.2	1.6	-3.1	18.2		7.5	1.9	1.4	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

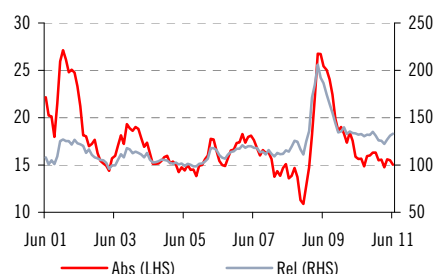
Outperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

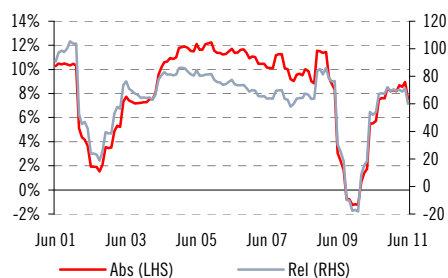


Source: CIRA, Factset Consensus

Profitability/Earnings

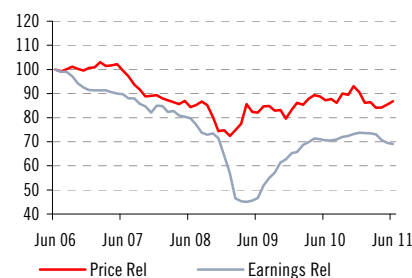
Rel earnings momentum weakening

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Nike Inc	1L	7.7	33	18.5	LVMH	FR	1M	10.3	44	19.1
Coach		4.4	19	19.3	Richemont	CH	1M	7.9	34	17.8
Mattel	1H	2.2	10	12.6	Panasonic	JP	1H	6.2	27	26.1
VF	2M	2.2	9	14.2	Sony	JP	1H	6.1	26	17.9
Fortune Brands	2M	2.1	9	18.1	Adidas-Salomon	DE		3.9	17	15.7
Polo Ralph Laur	1M	2.0	9	20.2	Swatch Group	CH	1M	3.6	16	16.7
Whirlpool Corp		1.4	6	7.4	Burberry Group	GB	2M	2.4	10	23.3
lululemon athlrc		1.3	6	46.6	Sharp Corp	JP	2H	2.1	9	35.2
Hasbro	2H	1.3	5	13.3	Christian Dior	FR		2.0	9	14.6
Newell Rubber	1M	1.1	5	9.4						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Consumer Services

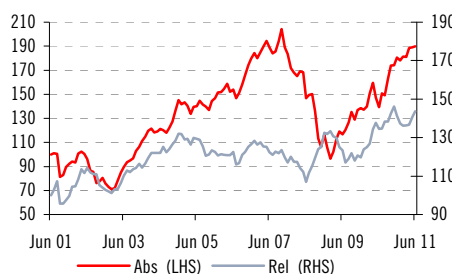
Weight in MSCI AC World	1.3%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	395 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	20.7	17.9	15.7	21.8	15.6	14.2		10.8	2.2	2.1	
US	64.5%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Dev Asia	11.6%												
UK	9.5%		US\$ Perf.			Loc. Perf.						Trail	
Europe x UK	5.2%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
Emerging Markets	4.8%												
Japan	2.2%	Sector	4.9	5.2	36.1	4.4	3.9	31.0		16.8	3.5	2.0	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

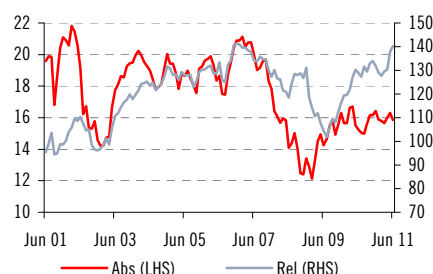
PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

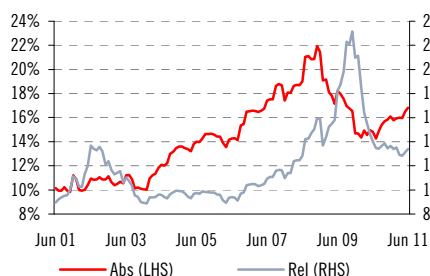


Source: CIRA, Factset Consensus

Profitability/Earnings

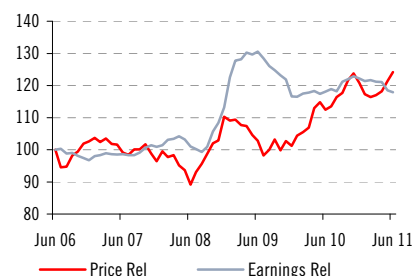
Recovering RoE

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
McDonald's	2L	22.3	88	15.8	Compass Group	GB	1M	4.6	18	14.3
Starbucks	1M	7.5	29	22.9	Genting Intl	SG	2L	2.4	10	18.5
YUM! BRANDS	2M	6.5	26	18.3	Tim Hortons	CA		2.1	8	18.6
Carnival Corp	1H	4.3	17	13.2	Genting	MY	1L	1.9	8	13.7
Las Vegas Snds	1L	3.9	15	21.5	Sodexo	FR	2M	1.9	7	16.4
Wynn Resorts LTD	3M	2.9	12	30.0	Carnival Plc	GB		1.8	7	13.1
Starwood Hotels	1M	2.7	11	27.7	Accor SA	FR	1M	1.7	7	20.8
Marriott Intl	1M	2.6	10	22.3	Sands China	HK	1L	1.7	7	20.8
Chipotle Mexican	2M	2.4	10	40.4	Intercont Hotels	GB	1M	1.5	6	17.1
Darden Restaurnt	1M	1.7	7	12.9						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Media

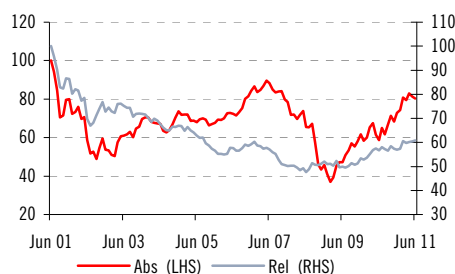
Weight in MSCI AC World	2.3%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	663 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	17.7	14.6	12.5	21.2	21.3	16.1		7.5	2.0	2.2	
US	63.9%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Europe x UK	14.9%												
UK	9.3%		US\$ Perf.			Loc. Perf.						Trail	
Emerging Markets	5.6%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
Japan	1.6%												
Dev Asia	1.1%	Sector	1.2	10.4	36.8	0.7	8.6	30.4		12.2	2.2	2.2	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

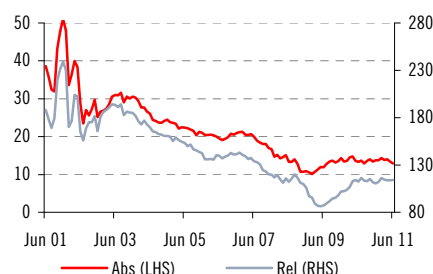
Outperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

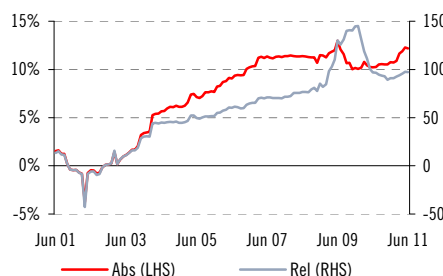


Source: CIRA, Factset Consensus

Profitability/Earnings

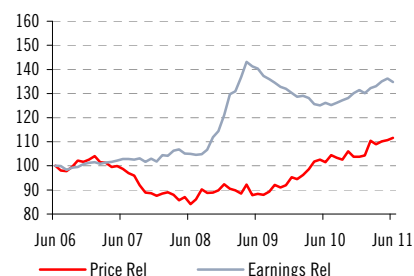
Stronger rel earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Walt Disney Co	2M	10.6	70	13.5	Vivendi	FR	1M	5.2	34	7.7
Comcast A	1M	7.9	52	14.4	Naspers	ZA	1M	3.3	22	16.2
DirecTV	2M	6.1	40	13.5	WPP Group	GB	1M	2.4	16	11.6
Time Warner	1M	6.0	40	12.3	B Sky B	GB	1M	2.3	15	17.8
News Corp	1M	4.9	32	13.3	Pearson	GB	2M	2.3	15	14.5
Viacom	1M	4.2	28	12.7	Thomson Corp	CA	2H	2.1	14	15.9
Time Warner	1M	4.0	27	15.3	Grupo Televisa	MX	1M	1.7	11	18.1
CBS	2H	2.7	18	15.0	Reed Elsevier	GB	1M	1.7	11	11.8
Comcast A Spec	1M	2.5	17	14.5	Reed Elsevier NV	NL		1.4	9	10.8
Omnicom Group	1M	2.1	14	13.9						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Retailing

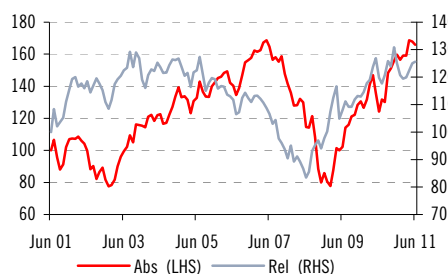
Weight in MSCI AC World	2.4%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	693 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	18.8	17.0	14.6	25.6	10.5	16.0	8.8	1.2	1.7		
US	66.9%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7		
Europe x UK	9.9%												
Emerging Markets	9.3%		US\$ Perf.			Loc. Perf.					Trail		
Japan	5.8%		3m	6m	12m	3m	6m	12m	ROE	P / BV	DY		
UK	4.1%												
Dev Asia	3.2%	Sector	4.2	3.9	33.6	3.8	2.9	28.6	16.1	3.0	1.7		
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5		

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

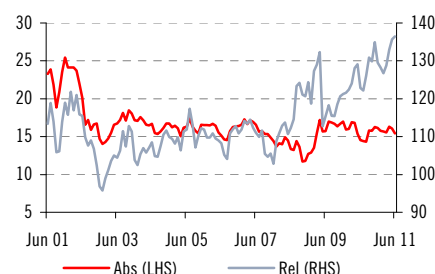
Outperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

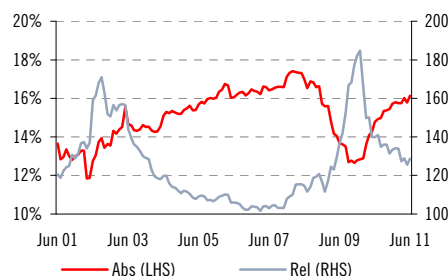


Source: CIRA, Factset Consensus

Profitability/Earnings

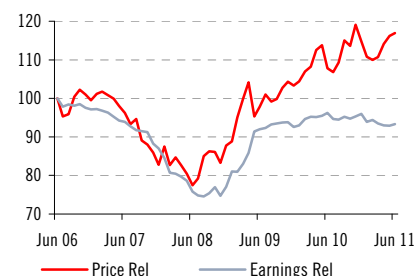
Relative earnings momentum weakening

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US		Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Amazon.com Inc		1H	10.7	74	65.1	Hennes & Mauritz	SE	2M	5.1	35	19.6
Home Depot Inc		1M	8.6	59	14.7	Inditex	ES	1M	2.9	20	19.7
Lowe's		2M	4.6	32	13.3	PPR	FR	1M	2.0	14	13.6
Target Corp		1M	4.5	31	10.9	Li & Fung	HK	2L	1.6	11	19.4
Priceline.Com		1H	3.6	25	22.0	Kingfisher	GB	1M	1.5	10	10.8
TJX Cos Inc		3M	3.0	21	12.9	Marks & Spencer	GB	1M	1.3	9	10.1
Bed Bath Bynd		1M	2.1	15	15.1	Belle Intl	CN	1L	1.3	9	24.8
Kohls		1H	2.0	14	10.7	Fast Retailing	JP	2M	1.2	9	19.2
Netflix Inc		1H	1.9	13	47.8	Rakuten	JP	2S	1.1	7	22.8
Macy's		1H	1.8	12	11.0						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Food & Staples Retailing

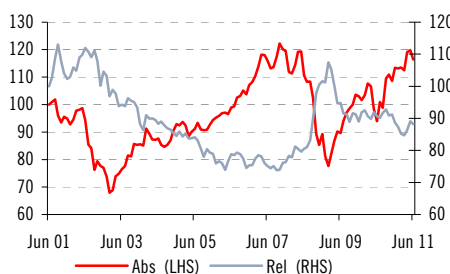
Weight in MSCI AC World		2.2%		Key Metrics			PE			EPS YoY			EV /		EV /		Fwd														
Market Cap (US\$)		635 Bn					10E			11E			12E			EBITDA		Sales		DY											
Regional Weight Breakdown				Sector			15.9			14.5			12.8			7.3			0.7		2.8										
US		44.3%		MSCI AC World			14.4			12.4			10.9			43.9			16.3			14.0			7.8			1.5		2.7	
Dev Asia		12.9%																													
Europe x UK		11.3%																													
Emerging Markets		11.2%																													
UK		10.9%																													
Japan		5.2%																													
				Sector			3.6			2.7			23.9			2.5			0.6			14.9			13.5			2.1		2.6	
				MSCI AC World			-0.5			3.4			27.4			-1.7			1.0			18.6			12.5			1.8		2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

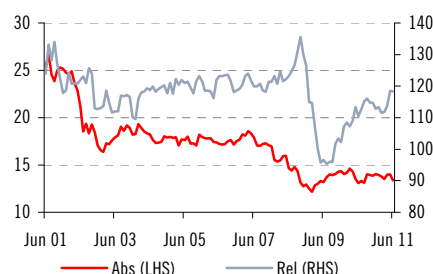
20% PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

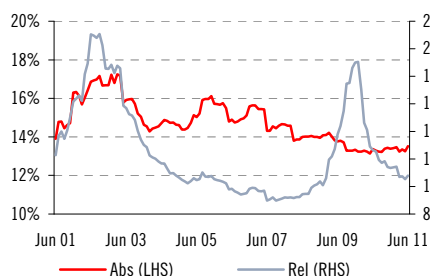


Source: CIRA, Factset Consensus

Profitability/Earnings

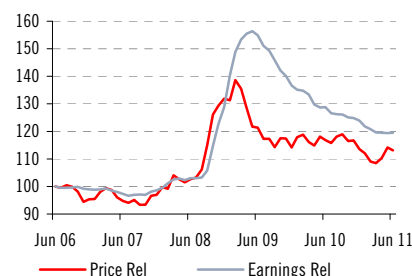
Earnings momentum flat over the quarter

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Wal Mart	1M	16.4	104	11.4	Tesco	GB	3M	8.2	52	10.8
CVS	1M	8.1	51	12.7	Woolworths Ltd	AU	1L	5.7	36	14.4
Walgreen	2M	6.2	39	14.3	Westfarmers Ltd	AU	2M	5.4	34	14.2
Costco	2M	5.6	35	21.6	Carrefour	FR	2M	3.7	24	10.9
Sysco	2M	2.9	18	15.0	Seven & I Hldgs	JP	1M	3.2	20	17.7
Kroger	2M	2.4	15	12.1	Wal-Mart Mexico	MX	1L	2.9	18	23.9
Whole Foods	2M	1.5	9	30.4	Ahold	NL	2M	2.5	16	9.8
Safeway	2H	1.4	9	12.7	Morrison Supermkts	GB	1L	1.7	11	11.1
					Shoppers Drug	CA		1.4	9	13.4

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Food Beverage & Tobacco

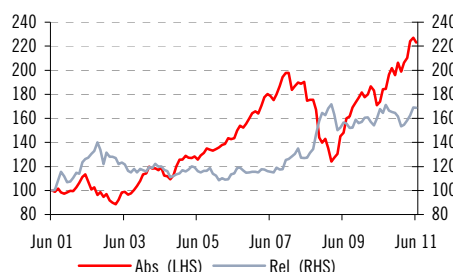
Weight in MSCI AC World	5.8%	Key Metrics								
Market Cap (US\$)	1,701 Bn		PE			EPS YoY			EV /	Fwd
			10E	11E	12E	10E	11E	12E	EBITDA	DY
Regional Weight Breakdown		Sector	17.0	15.5	14.1	11.9	9.7	10.7	10.1	3.2
US	43.2%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	2.7
Europe x UK	26.3%									
UK	15.0%									
Emerging Markets	9.5%									
Japan	3.7%									
Dev Asia	1.8%									
			US\$ Perf.			Loc. Perf.				Trail
			3m	6m	12m	3m	6m	12m	ROE	DY
		Sector	6.1	8.1	28.3	4.3	4.8	18.3	19.1	3.1
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

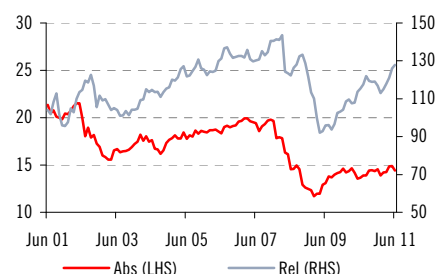
30% PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

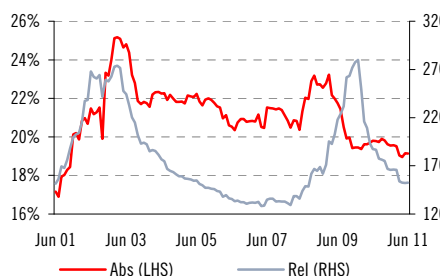


Source: CIRA, Factset Consensus

Profitability/Earnings

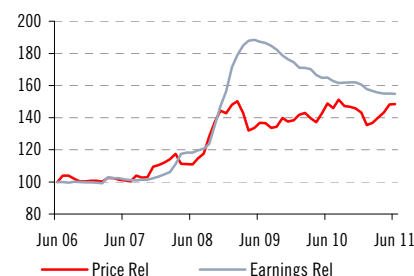
High RoE

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Coca-Cola Co	1L	8.2	139	16.5	Nestle	CH	2L	12.6	215	15.4
Philip Morris	2L	7.1	120	13.8	Brit Am Tobacco	GB	2L	5.1	88	13.5
Pepsico Inc	2L	6.6	112	15.0	Unilever NV	NL	1L	3.1	53	13.9
Kraft Foods Inc	1M	3.4	59	14.9	Diageo	GB	2L	3.0	51	14.6
Altria Group Inc	2M	3.2	55	12.5	InBev	BE	1M	2.7	47	14.4
General Mills	1M	1.4	24	13.8	Danone	FR	2L	2.6	43	16.2
Archer Daniels	1H	1.1	19	8.9	Unilever	GB	1L	2.4	41	14.0
HJ Heinz Co	1M	1.0	17	15.7	SABMiller	GB	2M	2.0	35	16.2
Lorillard	1M	0.9	16	13.5	Imperial Tobacco	GB	2L	2.0	34	10.3
Kellogg Co	1L	0.8	14	15.2						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Household & Personal

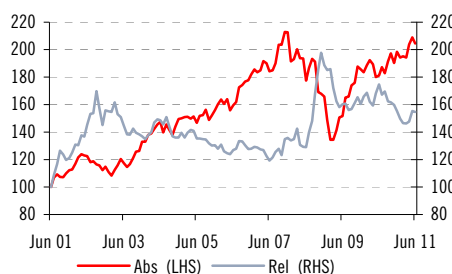
Weight in MSCI AC World	1.5%	Key Metrics									
Market Cap (US\$)	445 Bn		PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
			10E	11E	12E	10E	11E	12E			
Regional Weight Breakdown		Sector	17.6	16.7	15.2	8.1	5.6	9.7	10.7	2.1	2.8
US	65.8%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
Europe x UK	12.9%										
Emerging Markets	7.9%		US\$ Perf.			Loc. Perf.					Trail DY
UK	7.7%		3m	6m	12m	3m	6m	12m	ROE	P / BV	
Japan	5.8%										
Dev Asia	0.0%	Sector	5.2	3.0	12.8	4.7	1.5	8.8	20.1	3.6	2.9
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

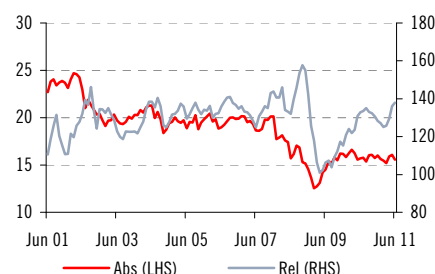
Strong recent performance

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

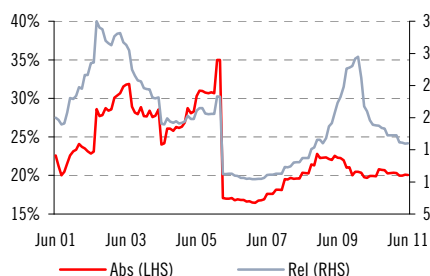


Source: CIRA, Factset Consensus

Profitability/Earnings

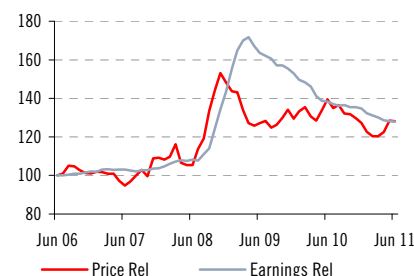
Relative earnings momentum weakening

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Procter & Gamble	1L	40.0	178	14.9	Reckitt Benckiser	GB	1L	7.7	34	14.2
Colgate	1L	9.7	43	16.5	L'Oreal	FR	1L	7.0	31	19.5
Kimberly Clark	1L	6.0	27	13.2	Kao Corp	JP		3.2	14	19.3
Estee Lauder Inc	1M	2.9	13	24.2	Henkel	DE	2M	2.8	12	14.1
Avon Prods	1H	2.7	12	12.8	Henkel	DE	2M	1.7	7	14.1
Clorox Co	2M	2.1	9	16.6	Hindustan Unilev	IN	2L	1.5	7	29.1
Church Dwight Co	2M	1.3	6	17.6	Shiseido Co Ltd	JP	3M	1.5	7	24.7
Energizer Hldgs	1M	1.1	5	12.0	Hengan Intl	CN	2L	1.5	7	25.9
					Beiersdorf	DE	3M	1.5	7	23.7

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Health Care Equipment & Services

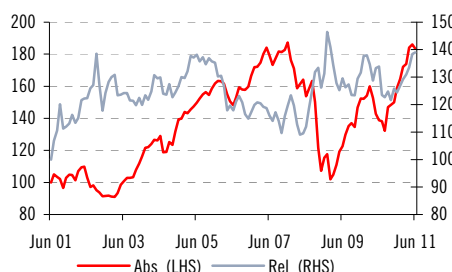
Weight in MSCI AC World	2.3%	Key Metrics		PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	662 Bn			10E	11E	12E	10E	11E	12E	EBITDA	Sales	DY
Regional Weight Breakdown		Sector		16.1	14.9	13.3	15.6	7.9	12.2	8.5	1.2	1.1
US	79.2%	MSCI AC World		14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
Europe x UK	11.3%											
Japan	3.9%											
Emerging Markets	2.3%											
Dev Asia	1.8%											
UK	1.5%											
				US\$ Perf.			Loc. Perf.					Trail
				3m	6m	12m	3m	6m	12m	ROE	P / BV	DY
		Sector		5.6	15.5	32.2	5.0	14.3	28.2	16.4	2.7	1.1
		MSCI AC World		-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

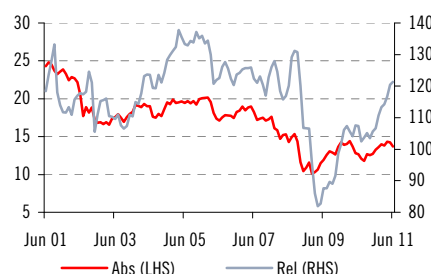
Strong performance

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

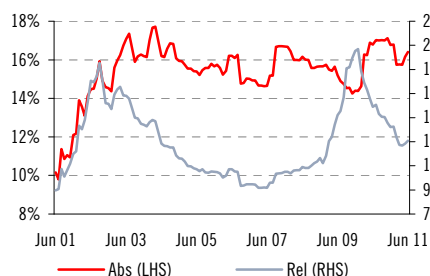


Source: CIRA, Factset Consensus

Profitability/Earnings

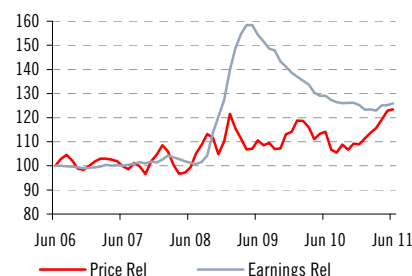
Weak Earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
UnitedHealth Grp	1L	8.5	56	11.6	Essilor	FR		2.5	16	20.8
Medtronic Inc	1M	6.2	41	10.9	Fresenius Med	DE	1L	2.2	15	19.6
Baxter Intl	3M	5.2	35	13.4	Fresenius SE	DE		1.8	12	15.3
WellPoint	1L	4.5	30	10.7	Synthes	CH	2L	1.7	11	19.2
Express Scripts	2M	4.1	27	15.1	Smith & Nephew	GB	1M	1.4	10	13.2
Covidien	1M	4.0	26	12.9	Terumo Corp	JP	1M	1.4	9	18.4
Medco Health	1M	3.5	23	12.8	Olympus Corp	JP		1.1	7	37.1
McKesson	2M	3.2	21	13.3	Geringe AB	SE		0.8	5	14.4
Becton Dickinson	1L	2.9	19	14.2	Sonic Healthcare	AU	2M	0.8	5	15.1
Stryker Corp	2M	2.6	17	15.0						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Pharma & Biotech

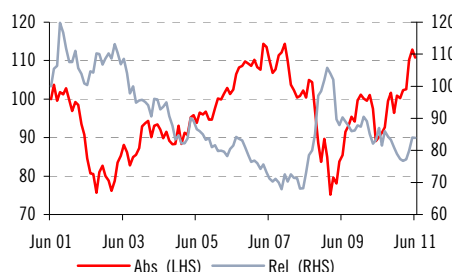
Weight in MSCI AC World	6.4%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	1,872 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	12.6	11.7	11.2	6.6	7.9	4.8		9.0	2.5	3.2	
US	50.7%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Europe x UK	27.0%												
UK	10.6%		US\$ Perf.			Loc. Perf.						Trail	
Japan	6.1%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
Emerging Markets	1.4%												
Dev Asia	1.0%	Sector	8.0	9.8	22.8	6.1	6.7	14.0		16.0	2.7	3.1	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

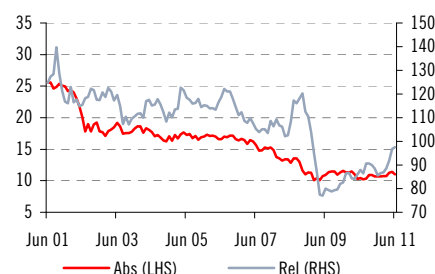
Strong recent performance

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

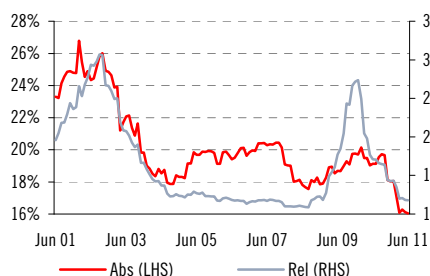


Source: CIRA, Factset Consensus

Profitability/Earnings

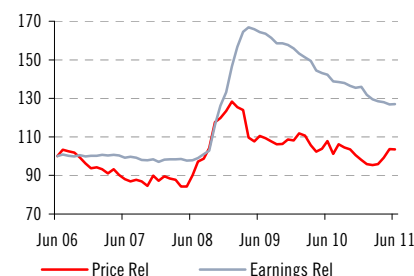
Lowest RoE in over 10 years

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Johnson&Johnson	1L	9.7	182	13.0	Novartis	CH	1L	7.6	143	10.6
Pfizer Inc	2H	8.8	165	9.1	Roche	CH	2M	6.3	117	10.2
Merck	2M	5.8	109	9.3	GlaxoSmithKline	GB	2L	5.9	111	11.3
Abbott Labs	3M	4.4	81	11.0	Sanofi-Aventis	FR	1M	4.8	90	8.5
Amgen Inc	1M	2.9	54	10.9	AstraZeneca	GB	1M	3.7	69	7.5
Bristol Myers	1M	2.6	49	13.6	Bayer	DE	1M	3.6	66	11.2
Eli Lilly and Co	2H	2.1	39	9.4	Novo-Nordisk	DK	1M	2.8	53	20.7
Gilead Sciences	2H	1.8	33	9.8	Teva	IL	1H	2.4	45	9.0
Celgene Corp	1M	1.5	28	16.0	Takeda Chem	JP	1M	1.9	36	12.2
Allergan	1M	1.4	25	21.2						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Banks

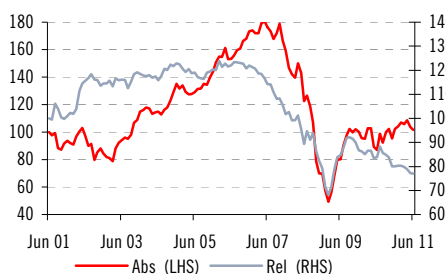
Weight in MSCI AC World		9.4%		Key Metrics			PE			EPS YoY			EV /		EV /		Fwd													
Market Cap (US\$)		2,761 Bn					10E			11E			12E			EBITDA		Sales		DY										
Regional Weight Breakdown				Sector			11.9			10.3			8.8						3.8											
Emerging Markets		25.6%		MSCI AC World			14.4			12.4			10.9			43.9			16.3			14.0			7.8		1.5		2.7	
Europe x UK		18.4%																												
Dev Asia		13.5%																												
UK		11.9%																												
US		11.8%																												
Japan		7.4%																												
				Sector			-3.9			-0.5			17.0			-5.2			-3.8			5.2			9.8		1.1		3.4	
				MSCI AC World			-0.5			3.4			27.4			-1.7			1.0			18.6			12.5		1.8		2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

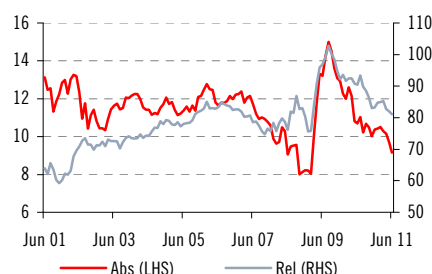
20% PE discount

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

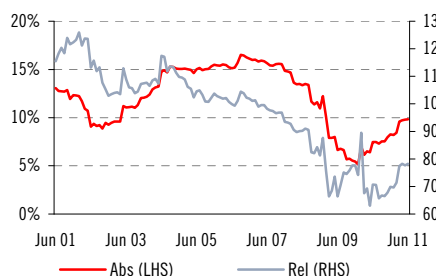


Source: CIRA, Factset Consensus

Profitability/Earnings

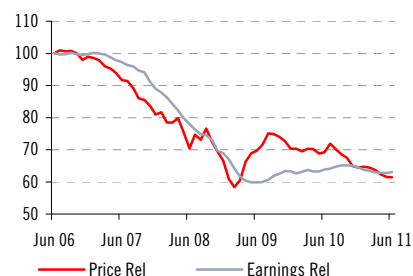
Weak relative earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Wells Fargo	2H	5.1	140	9.1	HSBC	GB	1M	6.4	176	9.8
US Bancorp	1M	1.8	49	10.8	Santander	ES	2M	3.5	97	7.0
PNC Finl Svc	2H	1.1	31	9.6	Comm Bk of Aus	AU	2M	3.1	87	11.3
BB&T Corp		0.7	19	12.8	Royal Bk Canada	CA		3.0	81	11.3
SunTrust Banks		0.5	14	14.9	Toronto Dominion	CA		2.7	75	11.4
Fifth Third	2H	0.4	12	9.9	BNP Paribas	FR	1M	2.7	74	6.8
M&T Bank Corp	2M	0.4	10	12.7	Westpac	AU	2M	2.6	72	10.1
CIT GROUP	1H	0.3	8	57.1	Bank Nova Scotia	CA		2.3	65	12.0
Keycorp	2H	0.3	8	10.7	Standard Chart	GB	1M	2.2	62	12.2
Regions Finan		0.3	8	17.5						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Diversified Financials

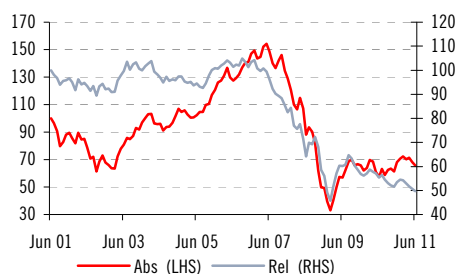
Weight in MSCI AC World	4.6%	Key Metrics		PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	1,343 Bn			10E	11E	12E	10E	11E	12E	EBITDA	Sales	DY
Regional Weight Breakdown		Sector		11.8	10.6	8.6	216.6	11.5	23.1			1.8
US	61.8%	MSCI AC World		14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7
Europe x UK	21.3%											
Emerging Markets	7.2%											
Dev Asia	3.3%											
Japan	3.3%											
UK	1.9%											
				US\$ Perf.			Loc. Perf.					Trail
				3m	6m	12m	3m	6m	12m	ROE	P / BV	DY
		Sector		-6.3	-3.7	14.4	-7.5	-5.8	7.8	8.0	1.0	1.8
		MSCI AC World		-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

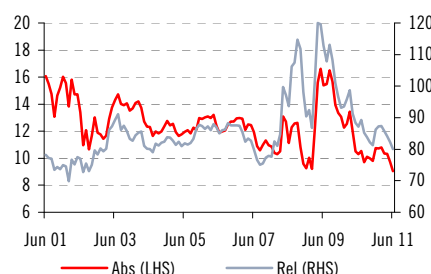
Fwd PE discount

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

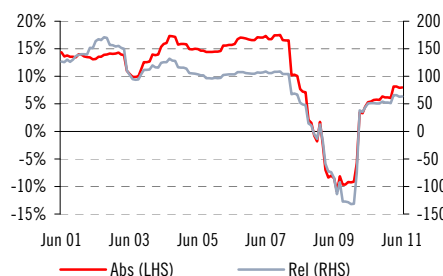


Source: CIRA, Factset Consensus

Profitability/Earnings

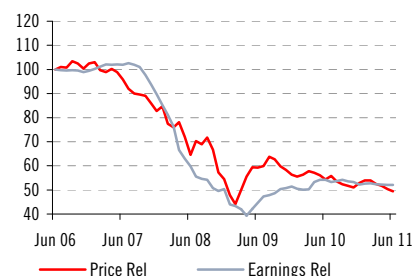
Uninspiring earnings

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
JP Morgan Chase	1M	12.1	163	7.8	UBS	CH	1M	4.9	66	7.8
Citigroup		9.0	121	N/A	Deutsche Bank	DE	2H	4.1	55	6.4
Bank of America	1H	8.3	111	7.9	ING	NL	2H	3.5	47	5.6
Goldman Sachs	1H	4.9	66	8.1	Credit Suisse	CH	1M	3.3	44	6.7
American Express	1M	4.2	56	12.9	HK Exch.	HK	1L	1.6	21	26.7
Morgan Stanley	2H	2.4	32	9.1	Nomura Holdings	JP	1H	1.3	17	16.6
Bank of NY Mellon		2.4	32	10.0	Restricted	DE		1.1	15	11.1
Capital One Fnc'l	1M	1.7	23	8.1	BMFBOVESPA	BR		1.0	13	12.9
State Street		1.7	23	11.2	Macquarie Group	AU	3H	0.9	12	8.6
Franklin Rsc	1L	1.5	21	13.9						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Insurance

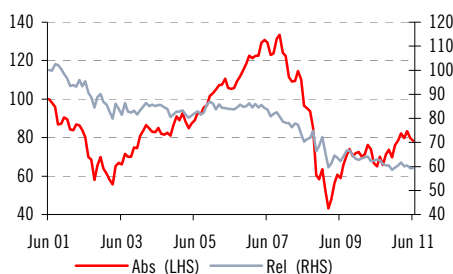
Weight in MSCI AC World	3.9%	Key Metrics							
Market Cap (US\$)	1,147 Bn	PE			EPS YoY			EV / EBITDA	EV / Sales
		10E	11E	12E	10E	11E	12E		Fwd DY
Regional Weight Breakdown		Sector			27.6				3.3
US	37.0%	MSCI AC World			43.9			7.8	2.7
Europe x UK	24.1%							1.5	
Emerging Markets	9.5%								
UK	8.7%								
Dev Asia	7.0%								
Japan	5.7%								
		US\$ Perf.			Loc. Perf.			ROE	Trail DY
		3m	6m	12m	3m	6m	12m	P / BV	
		Sector			-3.0			10.3	3.2
		MSCI AC World			-1.7			12.5	2.5

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

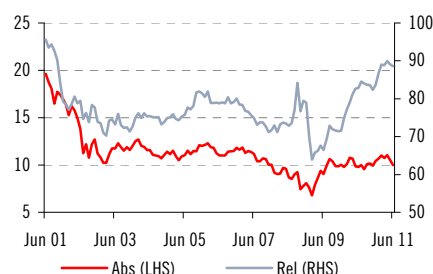
Underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

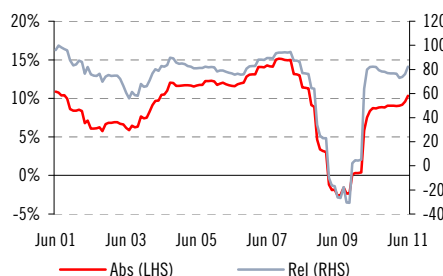


Source: CIRA, Factset Consensus

Profitability/Earnings

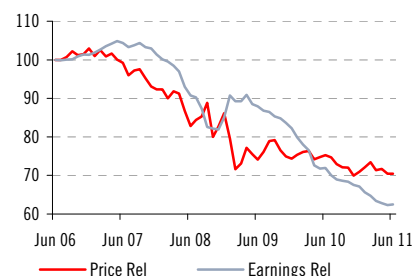
Weak relative earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Berkshire		6.1	70	15.6	Allianz	DE	1M	5.5	63	7.9
MetLife Inc	1M	4.0	46	8.0	Axa SA	FR	2H	3.4	40	7.8
Prudential Finl	2M	2.7	31	8.8	Zurich	CH	1M	3.2	37	8.6
Travlrs	2M	2.2	25	10.8	Manulife Finl	CA	3H	2.7	31	10.2
Ace Ltd	1M	1.9	22	9.6	Prudential	GB	1H	2.6	29	11.6
AFLAC Inc	2H	1.9	22	7.4	Munich Re	DE	2M	2.5	29	10.2
Chubb Corp	2M	1.6	18	10.9	AIA Group	HK	1L	2.4	27	15.9
Marsh & McLennan	1M	1.5	17	15.6	China Life	CN	2L	2.2	25	14.9
Allstate Corp	2H	1.4	16	11.5	Generali SpA	IT	2M	2.1	25	9.4
Aon Corp	1M	1.3	15	14.0						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Real Estate

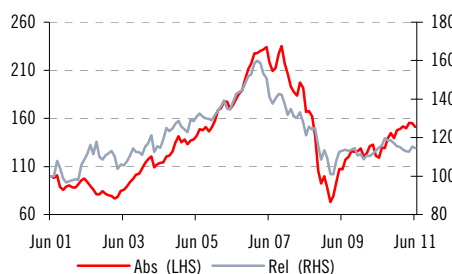
Weight in MSCI AC World	2.4%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	706 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	21.3	18.9	17.1	32.5	13.1	10.4				3.5	
US	35.9%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7		
Dev Asia	28.9%												
Japan	11.1%												
Emerging Markets	9.9%												
Europe x UK	6.0%												
UK	4.5%												
			US\$ Perf.			Loc. Perf.					Trail		
			3m	6m	12m	3m	6m	12m	ROE	P / BV	DY		
		Sector	0.9	2.4	27.0	0.0	1.1	19.6	7.6	1.4	3.4		
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5		

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

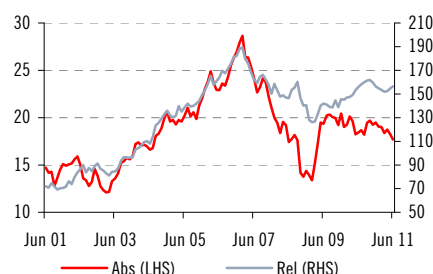
Outperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

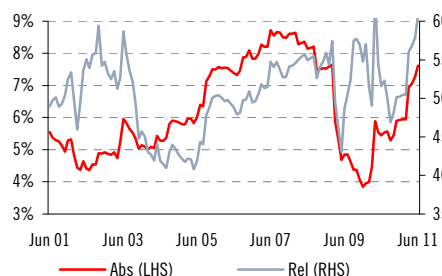


Source: CIRA, Factset Consensus

Profitability/Earnings

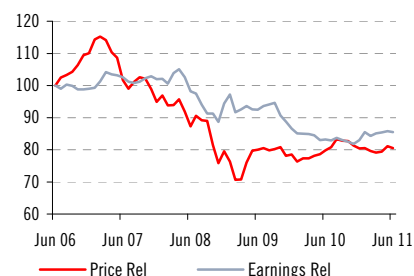
Flat prices

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US		Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Simon Prop Grp		2M	4.8	34	42.7	Mitsubishi Est	JP	1M	3.1	22	32.6
Equity Resident		3H	2.5	18	55.3	Unibail	FR		3.0	21	17.8
Public Storage		1M	2.3	16	33.3	SHK Props	HK	1L	2.9	21	15.2
Prologis		2H	2.3	16	-194.2	Westfield Group	AU	1M	2.9	20	12.9
Vornado Realty		2H	2.2	15	39.8	Cheung Kong	HK	1L	2.9	20	8.1
Boston Ppty		2H	2.1	15	66.5	Restricted	CA		2.6	19	29.4
HCP		2H	2.1	15	24.7	Mitsui Fudosan	JP	1M	2.0	14	22.1
Annaly Capital		2S	2.1	15	7.4	Swire	HK	1L	1.5	11	13.9
Weyerhaeuser Co			1.7	12	32.6	Land Secs Group	GB	1M	1.5	11	22.9
Host Hotels		2M	1.6	12	67.8						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Software & Services

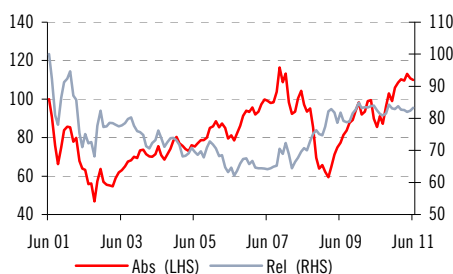
Weight in MSCI AC World	4.7%	Key Metrics							
Market Cap (US\$)	1,374 Bn	PE		EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
		10E	11E	12E	10E	11E	12E		
Regional Weight Breakdown		Sector							
US	81.0%	16.8	14.7	13.0	17.5	13.8	13.0	9.2	2.7
Emerging Markets	7.6%	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5
Europe x UK	5.9%								
Japan	3.4%								
UK	0.9%								
Dev Asia	0.3%								
		US\$ Perf.			Loc. Perf.				Trail DY
		3m	6m	12m	3m	6m	12m	ROE	P / BV
		Sector							
		0.3	3.9	28.7	0.0	3.3	26.2	23.4	4.2
		MSCI AC World							
		-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

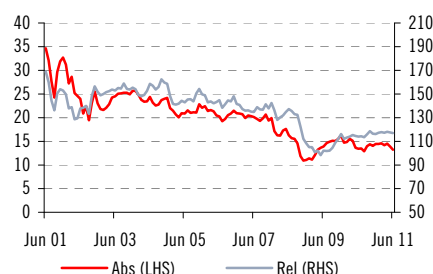
20% PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

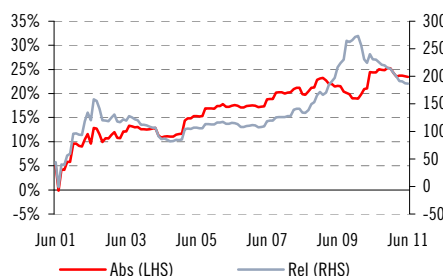


Source: CIRA, Factset Consensus

Profitability/Earnings

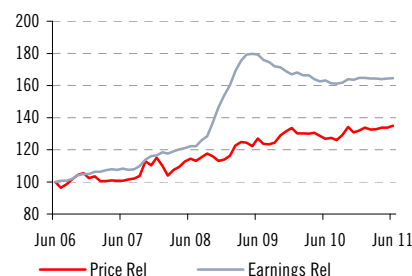
Earnings momentum flat over the quarter

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
IBM	1M	15.2	209	12.3	SAP AG	DE		4.1	56	14.7
Microsoft	1L	14.3	197	9.4	Infosys Tech	IN	2L	2.0	28	19.7
Oracle Corp	1L	9.7	133	13.5	Tencent	CN	1L	2.0	27	25.5
Google	2H	9.2	127	13.8	Nintendo Co Ltd	JP	3H	1.3	19	17.1
Visa	2M	3.0	42	15.4	Tata Consult	IN	2L	0.9	12	21.4
Accenture	1M	2.8	39	16.2	Capgemini	FR		0.6	9	14.3
eBay Inc	1H	2.7	38	15.4	NHN	KR	2L	0.5	7	14.7
MasterCard	2M	2.4	34	16.3	Autonomy	GB		0.5	6	19.6
Automatic Data	1L	1.9	26	19.3	Cielo	BR	1M	0.4	6	12.3
Cognizant Tech	1M	1.6	22	23.9						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Tech Hardware

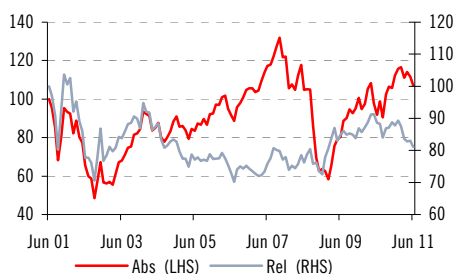
Weight in MSCI AC World		4.5%		Key Metrics			PE			EPS YoY			EV /		EV /		Fwd													
Market Cap (US\$)		1,333 Bn					10E			11E			12E			EBITDA		Sales		DY										
Regional Weight Breakdown				Sector			14.7			12.6			10.9			80.2			16.8			16.2			8.2		1.3		1.3	
US		63.1%		MSCI AC World			14.4			12.4			10.9			43.9			16.3			14.0			7.8		1.5		2.7	
Japan		17.7%																												
Emerging Markets		11.9%					US\$ Perf.						Loc. Perf.														Trail			
Europe x UK		6.3%					3m			6m			12m			3m			6m			12m			ROE		P / BV		DY	
Dev Asia				0.1%																										
UK		0.0%		Sector			-3.6			-4.6			16.6			-4.3			-5.3			11.7			14.8		2.2		1.1	
				MSCI AC World			-0.5			3.4			27.4			-1.7			1.0			18.6			12.5		1.8		2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

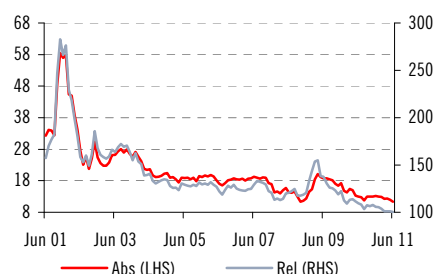
Underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

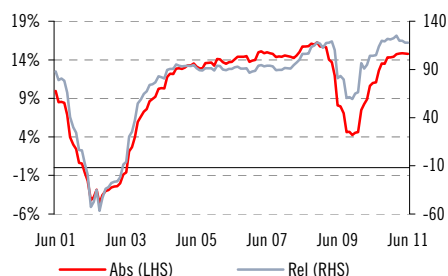


Source: CIRA, Factset Consensus

Profitability/Earnings

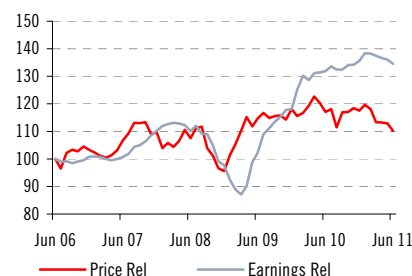
Rel earnings momentum weakening

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Apple Inc	1H	23.2	309	12.1	Canon Inc	JP	1M	4.0	53	16.1
Qualcomm Inc	1M	7.0	93	16.6	Ericsson	SE	2H	3.3	44	13.7
Cisco Systems	2M	6.5	86	9.1	Hon Hai Precision	TW	1L	2.1	28	10.5
Hewlett-Packard	1M	5.9	79	6.9	Hitachi Ltd	JP	2H	2.0	26	9.3
EMC Corp	1M	4.3	57	17.1	Nokia	FI	3H	1.8	24	17.7
Dell Inc	1M	2.2	29	8.7	High Tech Comp	TW	1L	1.8	23	9.8
Corning Inc	2H	2.1	28	8.5	Toshiba	JP	1H	1.6	21	11.9
Netwk Appliance	2H	1.4	19	20.7	Kyocera	JP	2H	1.2	15	13.4
Juniper Netwrks	1H	1.3	17	18.5	Fujifilm Holding	JP	2M	1.1	14	12.6
TE Connectivity	1H	1.2	16	11.1						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Semiconductors

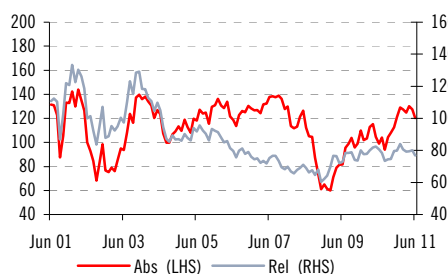
Weight in MSCI AC World	2.1%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	614 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	11.6	11.2	10.1	233.6	2.2	12.7		5.8	1.7	2.3	
US	52.4%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Emerging Markets	35.8%												
Europe x UK	5.8%		US\$ Perf.			Loc. Perf.						Trail	
Japan	3.5%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
UK	2.1%												
Dev Asia	0.4%	Sector	-3.6	-0.7	21.4	-4.7	-2.6	14.4		19.8	2.2	2.3	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

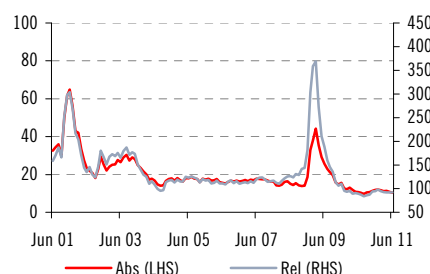
Underperformer

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

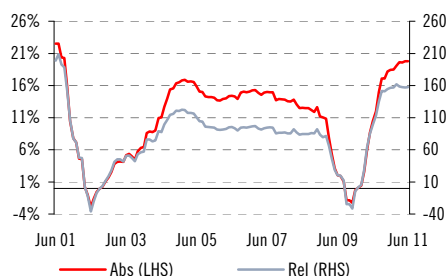


Source: CIRA, Factset Consensus

Profitability/Earnings

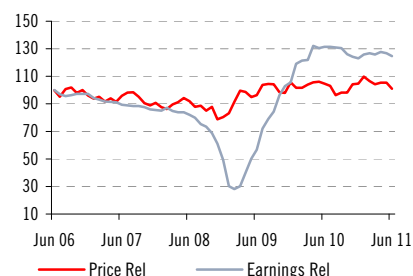
Flat EPS momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Intel	1M	19.8	122	9.5	Samsung Elec	KR	1L	13.9	85	8.6
Texas Instrument	1M	6.3	38	12.7	TSMC	TW	1L	10.1	62	11.4
Applied Material	2M	2.8	17	9.2	ASML Holding	NL	3H	2.6	16	8.1
Broadcom Corp	1H	2.7	16	11.5	ARM Holdings	GB	3H	2.1	13	48.9
Altera Corp	1H	2.4	15	17.5	Infineon	DE	2S	2.0	12	12.5
Analog Devices	1M	1.9	12	13.1	Hynix	KR	1M	1.9	12	6.8
Xilinx Inc	2H	1.6	10	16.1	Samsung Elec P	KR	1L	1.8	11	8.6
NVIDIA	2S	1.5	9	14.1	MediaTek	TW	3L	1.7	10	18.0
Marvell Technlgy	1H	1.3	8	9.4	Tokyo Electron	JP	2H	1.5	9	11.2
Avago Tech	1H	1.3	8	14.2						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Telecom Services

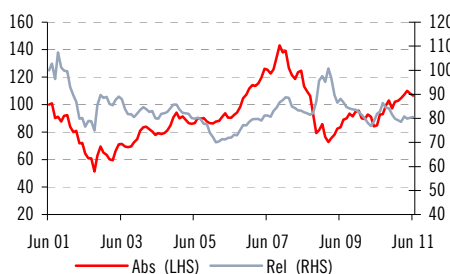
Weight in MSCI AC World	4.6%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	1,352 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	13.1	12.3	11.4	3.5	6.3	8.6	5.7	1.9	5.4		
US	29.1%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0	7.8	1.5	2.7		
Europe x UK	22.9%												
Emerging Markets	21.5%												
UK	12.3%												
Japan	7.6%												
Dev Asia	3.0%												
			US\$ Perf.			Loc. Perf.					Trail		
			3m	6m	12m	3m	6m	12m	ROE	P / BV	DY		
		Sector	-0.8	4.3	25.5	-1.8	1.3	15.7	14.4	1.8	5.2		
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6	12.5	1.8	2.5		

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

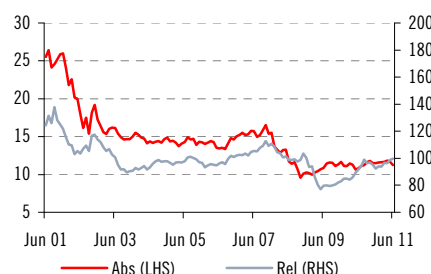
In-line 2Q11 performance

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

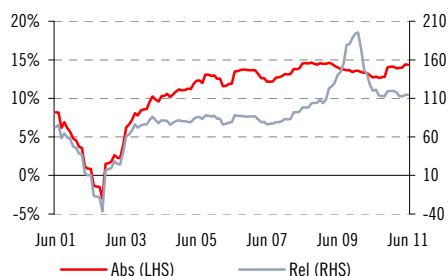


Source: CIRA, Factset Consensus

Profitability/Earnings

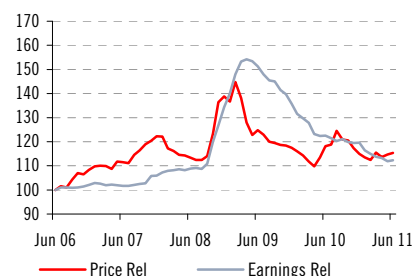
Uninspiring earnings outlook

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
AT&T	1M	13.7	186	12.8	Vodafone	GB	1L	10.2	137	10.0
Verizon Comms	2M	7.7	104	15.4	Telefonica	ES	2M	7.4	100	9.2
CenturyLink	1M	1.8	24	14.8	China Mobile	CN	1L	4.1	56	9.7
American Tower	1H	1.5	21	45.5	America Movil	MX	1M	3.9	53	6.2
Sprint Nextel	1S	1.2	16	-9.2	Deutsche Tele	DE	1L	3.3	44	13.9
Crown Castle	2H	0.9	12	67.8	France Telecom	FR	2L	2.9	39	8.8
Frontier Com	2S	0.6	8	27.4	MTN Group Ltd	ZA	1H	2.7	36	11.9
NII Holdings	1H	0.5	7	15.6	SoftBank	JP	1M	2.4	32	12.6
Windstream	1H	0.5	7	16.0	NTT DoCoMo	JP	1L	2.0	27	11.4
SBA Comms	2H	0.3	4	-62.5						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

Utilities

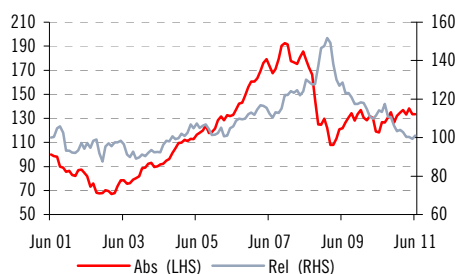
Weight in MSCI AC World	3.8%	Key Metrics			PE			EPS YoY			EV /	EV /	Fwd
Market Cap (US\$)	1,107 Bn		10E	11E	12E	10E	11E	12E		EBITDA	Sales	DY	
Regional Weight Breakdown		Sector	12.7	13.7	12.7	-10.5	-2.3	17.1		7.2	1.6	4.6	
US	37.4%	MSCI AC World	14.4	12.4	10.9	43.9	16.3	14.0		7.8	1.5	2.7	
Europe x UK	26.6%												
Emerging Markets	12.8%		US\$ Perf.			Loc. Perf.						Trail	
UK	9.2%		3m	6m	12m	3m	6m	12m		ROE	P / BV	DY	
Japan	7.9%												
Dev Asia	4.6%	Sector	0.2	1.0	12.8	-0.9	-1.9	4.5		8.5	1.3	4.4	
		MSCI AC World	-0.5	3.4	27.4	-1.7	1.0	18.6		12.5	1.8	2.5	

Source: CIRA, Worldscope, MSCI, Factset Consensus

Performance/Valuation

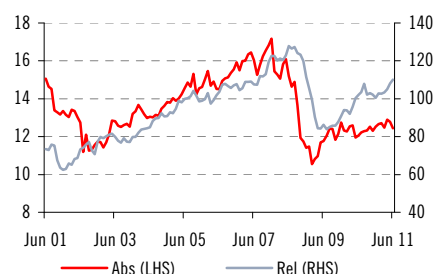
PE premium

Price Performance (US\$)



Source: CIRA, MSCI, Factset

12Mth Forward PE

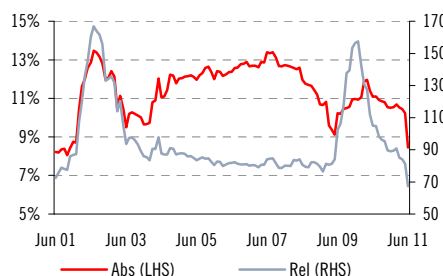


Source: CIRA, Factset Consensus

Profitability/Earnings

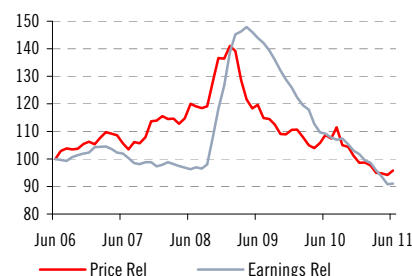
Weak relative earnings momentum

Return on Equity



Source: CIRA, MSCI, Factset

Relative Earnings/Price Momentum



Source: CIRA, MSCI, Factset

Key Companies

US	Rtg	Wgt	MC	PE	ROW	Cntry	Rtg	Wgt	MC	PE
Southern Co	1L	3.0	34	15.5	E.ON	DE	2H	4.6	51	10.5
Exelon Corp	2M	2.6	28	12.1	GDF Suez	FR	1M	4.1	45	11.7
Dominion Rsc	2M	2.5	28	15.1	Enel	IT	2M	3.9	43	9.2
Duke Energy	2M	2.3	25	13.6	National Grid	GB	2M	3.1	34	11.9
NextEra Energy Inc	2M	2.1	23	12.5	Restricted	ES		3.0	34	11.7
FirstEnergy Corp	2M	1.7	18	13.3	Centrica	GB	2M	2.4	27	11.5
Amer Elec Pwr	2M	1.6	18	11.8	RWE	DE	3H	2.1	23	7.9
PG&E	2L	1.5	17	11.6	Scot & Sth Enrgy	GB	2L	1.9	21	11.7
Public Srvc Ent	2M	1.5	17	12.7	CLP Holdings	HK	2L	1.5	17	15.7
PPL Corp	2M	1.4	16	11.0						

Source: CIRA, MSCI, IBES

Source: CIRA, MSCI, IBES

How to read

This page does not necessarily represent the current view nor freshest market data.

Citi Ratings are driven by our regional and sectoral allocation model.

MSCI All Country World Region or Sector Index

USA

Neutral

Weight in MSCI AC World
Market Cap (US\$) 42.8%
12,572 Bn

Country Weight Breakdown
United States 100.0%

Performance figures for regions/ countries are quoted in local currency, for sectors in USD

US equities rallied by 5.5% in 1Q 2011 as they posted their second consecutive quarter of outperformance. The market benefitted from stronger economic and earnings news. Also, there was renewed allocations towards developed market equities in 1Q. The US market was the major beneficiary of these flows. Corporate activity was a further support for share prices. A number of deals were announced, many of which had considerable premiums attached. The US is an attractive equity market. It has some of the best run companies in the world, earnings trends are strong, companies benefit from a weaker currency, the central bank seems much more supportive than in other regions, as does the government. However, for us, the market is also weighed down by relatively expensive valuations. While no region stands as being extraordinarily expensive, the US is the most highly valued. It trades on a 20% price to book premium and a 10% PE premium. A further negative is that the US is Overweight mega cap stocks. These companies are more likely to be the acquirer who pays a premium in M&A deals. Not the target who benefits from the premium being paid. We are currently Neutral. Stocks we like include CVS, Google, MetLife, Southern Co, Verizon and Warner Chilcott.

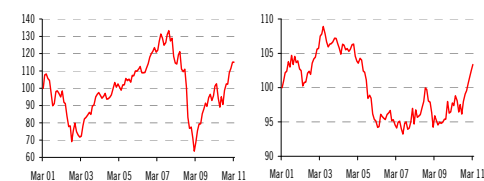
Price performance shown in US\$ for sectors and local currency for regions.

Performance

Outperformer

Price Performance (Loc)

Relative Price Performance (Loc)



Source: CIRA, MSCI, Factset

Source: CIRA, MSCI, Factset

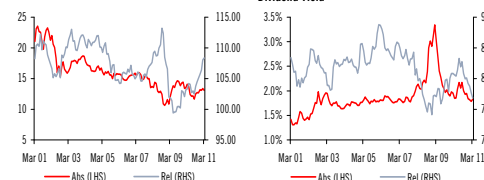
LHS: Factset Consensus 12m forward PE (left axis) and relative to world (right axis).

Valuation

Premium valuations

12Mth Forward PE

Dividend Yield



Source: CIRA, Factset Consensus

Source: CIRA, MSCI, Factset

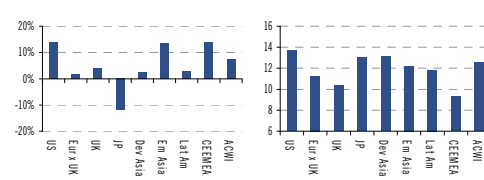
RHS: Trailing dividend yield (left axis) and relative to world (right axis).

Global Context

12 Month outperformer

12Mth Performance (Loc)

2011 Forward PE



Source: CIRA, MSCI, Factset

Source: CIRA, Factset Consensus

Shows rolling 12 month capital only performance (local currency) and calendarized Factset Consensus based PEs broken down on a regional basis at the sector level and on a global basis at the regional level.

Key Metrics

Compiled based on constituents of the MSCI AC World Index. PE, EPS Growth, Forward DY are aggregated from FactSet consensus estimates (calendarized to December year end) with current prices. ROE is calculated using trailing book value and trailing earnings. Trailing DY is calculated using current price. The last full EV/Sales and EV/EBITDA are aggregated from Worldscope data (EV uses current market capitalisation, EBITDA and Sales use last reported year).

Key Metrics

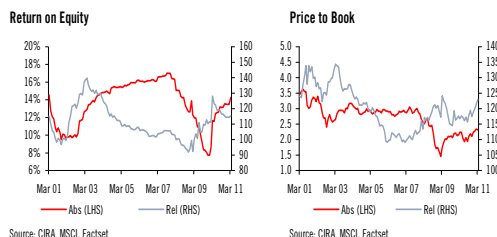
	PE			EPS YoY			EV / EBITDA	EV / Sales	Fwd DY
	10E	11E	12E	10E	11E	12E			
Region	15.8	13.7	12.0	43.1	15.2	14.0	8.4	1.7	1.9
MSCI AC World	14.6	12.5	11.1	42.8	16.3	13.2	8.1	1.5	2.7

	US\$ Perf.			Loc. Perf.			ROE	P / BV	Trail DY
	3m	6m	12m	3m	6m	12m			
Region	5.5	16.5	13.8	5.5	16.5	13.8	14.3	2.3	1.8
MSCI AC World	3.9	12.6	11.8	2.7	10.5	7.2	12.4	1.9	2.4

Source: CIRIA, Worldscope, MSCI, Factset Consensus

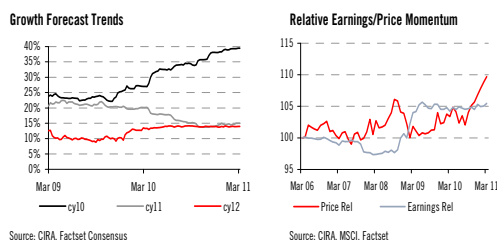
Profitability

+20% PBV premium



Earnings

Prices run ahead of earnings



Key Companies

Top 1 - 10					Top 11 - 20				
	Rtg	Wgt	MC	PE		Rtg	Wgt	MC	PE
ExxonMobil	1M	3.4	424	10.7	Pfizer Inc	2H	1.3	163	9.0
Apple Inc	1H	2.5	320	14.1	Wells Fargo	2H	1.3	158	10.5
Chevron	1H	1.7	216	9.3	Google	1H	1.2	146	16.3
General Electric	1M	1.7	214	14.3	Coca-Cola Co	1L	1.1	139	16.7
IBM	1M	1.6	203	12.1	Bank of America	1H	1.1	134	9.1
Microsoft	1L	1.6	195	9.4	Oracle Corp	1L	1.1	134	14.2
AT&T	1M	1.4	181	12.6	Restricted	1.0	128	9.7	
JP Morgan Chase	1M	1.4	180	9.2	Schlumberger Ltd	1M	1.0	127	22.4
Procter & Gamble	1L	1.4	172	14.5	Philip Morris	2L	0.9	119	14.4
Johnson&Johnson	1L	1.3	163	12.1	Intel	1M	0.9	113	9.7

Source: CIRIA, MSCI, IBES

Source: CIRIA, MSCI, IBES

LHS: Trailing Return on Equity (left axis) and relative to world (right axis).

RHS: Trailing Price to Book value (left axis) and relative to world (right axis).

LHS: Revisions to calendarized year-on-year EPS growth. Based on Facset Estimates.

RHS: Relative 12 month forward earnings and relative price performance.

Key Companies

Regional pages show the top 20 companies by market cap. Sector pages show the top 10 companies by market cap for each of the US and Rest of World.

Rtg - Citi investment rating: 1 is Buy, 2 is Hold, 3 is Sell. L is low risk, M is medium risk, H is high risk, S is speculative. When no data shows, data is restricted or company is not covered by Citi.

Wgt - Company weighting in region/sector index shown in percent.

MC - Index market capitalization. Index market capitalizations represent the value of the company that is included in the index and are displayed in billions of US\$. The market capitalization are free-float foreign-investable adjusted.

PE - 12 month forward IBES consensus PE. When no data shows, data is restricted or company's not covered by IBES.

Cntry - Country code of inclusion in MSCI index.

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Global Market Intelligence

Figure 31. Global Market Intelligence by Region

30 Jun 11	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US\$bn	%	10E	11E	12E	10E	11E	12E	11E	11E	11E	10	10	Weekly	YTD
Global	29,386	100	14.4	12.4	10.9	43.9	16.3	14.0	1.7	13.7	2.7	1.5	7.8	3.2	1.0
Developed World	25,403	86.4	14.7	12.7	11.1	44.9	16.0	14.3	1.7	13.4	2.7	1.5	8.0	3.3	1.7
Emerging World	3,982	13.6	13.1	11.0	9.8	38.2	18.2	12.8	1.7	15.6	2.9	1.4	7.1	2.8	-3.3
North America	13,911	47.3	16.0	13.6	11.9	46.1	17.8	14.3	2.1	15.3	2.0	1.8	8.4	2.9	4.5
USA	12,559	42.7	15.8	13.5	11.8	49.4	17.1	14.3	2.1	15.6	1.9	1.7	8.4	2.9	5.2
Canada	1,352	4.6	18.0	14.3	12.5	19.0	25.9	14.9	1.9	13.2	2.4	2.7	9.0	2.6	-1.3
Europe	7,594	25.8	12.3	11.0	9.7	37.7	11.4	13.0	1.5	13.8	3.8	1.3	7.2	4.2	0.2
United Kingdom	2,443	8.3	12.5	10.5	9.5	34.3	19.1	10.4	1.7	16.2	3.6	1.2	7.7	4.7	1.0
Europe ex UK	5,152	17.5	12.2	11.3	9.9	39.4	7.8	14.3	1.4	12.8	3.9	1.4	7.0	4.0	-0.2
France	1,202	4.1	12.3	10.7	9.6	48.8	14.0	11.9	1.3	11.8	4.1	1.2	6.4	5.0	4.5
Germany	1,038	3.5	11.9	11.1	9.6	111.9	7.0	15.7	1.5	13.2	3.4	1.2	6.7	3.2	3.2
Switzerland	959	3.3	13.0	12.8	11.1	14.0	1.5	15.0	2.1	16.2	3.5	2.0	10.1	3.2	-4.3
Spain	413	1.4	10.2	9.8	8.7	-1.2	4.0	12.6	1.3	13.5	6.5	1.8	6.0	4.2	4.2
Sweden	360	1.2	12.9	12.8	11.3	50.9	0.5	13.5	2.1	16.8	3.9	1.7	9.6	6.0	-3.3
Italy	318	1.1	11.3	9.8	8.4	15.9	15.4	15.9	0.8	8.6	4.7	1.4	5.3	3.6	0.2
Netherlands	289	1.0	11.0	9.8	9.0	109.2	13.0	8.9	1.4	14.8	3.4	1.3	7.8	3.1	-4.1
Denmark	122	0.4	17.5	15.4	12.5	84.3	13.6	23.0	2.0	13.0	2.0	1.7	7.0	4.0	-6.0
Finland	112	0.4	12.3	13.4	11.4	17.4	-8.0	18.0	1.5	11.3	4.6	1.0	8.0	5.5	-16.0
Belgium	110	0.4	13.8	14.1	11.2	12.8	-1.5	25.9	1.4	9.8	3.1	2.1	8.2	1.5	-1.8
Norway	105	0.4	12.4	10.1	9.0	39.0	22.1	12.4	1.5	14.7	4.6	1.3	4.7	4.3	-5.9
Austria	39	0.1	12.6	10.4	8.6	16.5	21.5	21.2	1.1	10.5	3.5	1.1	6.0	2.9	-2.4
Portugal	30	0.1	13.9	12.6	11.1	-2.1	10.2	13.6	1.2	9.8	4.9	1.8	8.4	3.7	-1.9
Ireland	29	0.1	25.0	19.9	15.7	-3.1	25.9	26.8	1.5	7.6	2.5	1.0	9.9	6.3	7.0
Greece	26	0.1	9.5	11.3	7.8	-44.6	-15.7	45.2	0.7	6.2	3.2	1.1	5.0	3.7	-12.5
Japan	2,302	7.8	16.9	14.2	11.9	134.7	24.5	23.7	1.0	7.0	2.3	1.0	8.1	2.9	-6.2
Asia Pac ex Jp	3,847	13.1	14.4	12.4	11.0	35.9	16.8	13.1	1.8	14.4	3.2	1.4	7.6	2.8	-2.1
Pacific ex Jp	1,514	5.2	15.3	12.9	11.9	19.7	18.5	9.0	1.7	13.1	4.1	2.1	9.0	2.7	-2.8
Australia	990	3.4	15.2	12.4	11.1	17.8	22.4	12.0	1.8	14.7	4.6	2.1	8.4	2.8	-2.5
Hong Kong	313	1.1	16.1	14.0	14.4	27.5	14.7	-2.5	1.4	10.2	2.8	2.6	14.5	2.9	-2.7
Singapore	197	0.7	14.7	13.9	12.7	20.6	5.7	9.8	1.6	11.5	3.6	1.9	9.3	2.6	-4.3
New Zealand	14	0.0	16.3	14.5	12.3	-4.1	12.0	18.3	1.6	10.8	5.1	1.3	5.8	-0.8	7.5
Em Asia	2,332	7.9	13.9	12.0	10.4	47.8	15.8	15.6	1.8	15.3	2.6	1.2	7.2	2.8	-1.6
China	691	2.4	13.3	11.2	9.8	40.4	18.4	15.6	1.9	16.7	2.9	1.3	7.1	3.8	-0.7
Korea	588	2.0	11.5	9.7	8.6	60.2	17.8	13.3	1.4	14.3	1.4	0.8	5.9	2.3	1.0
Taiwan	443	1.5	14.7	13.9	11.7	78.9	4.6	20.5	1.8	13.0	4.1	1.4	7.4	0.5	-4.7
India	293	1.0	19.4	16.1	13.6	21.4	20.5	18.4	2.7	16.5	1.3	2.1	12.0	5.9	-9.2
Malaysia	125	0.4	17.9	15.5	14.0	26.1	14.9	10.7	2.2	14.3	3.4	2.5	9.6	1.2	4.3
Indonesia	104	0.4	18.1	15.0	12.8	21.0	20.6	17.3	3.6	24.3	2.6	2.6	8.3	2.1	6.1
Thailand	67	0.2	13.8	11.7	10.4	33.3	18.5	12.5	2.1	17.7	3.6	1.2	7.3	4.1	2.2
Philippines	22	0.1	15.9	15.2	13.6	44.8	4.6	11.4	2.5	16.5	2.8	2.8	8.8	1.4	-3.0
Latin America	913	3.1	13.3	11.1	10.0	26.2	20.1	10.1	1.7	15.9	3.1	2.2	7.4	2.3	-8.3
Brazil	618	2.1	11.4	9.7	8.9	31.9	18.3	8.5	1.5	15.9	3.5	2.1	6.8	2.1	-9.1
Mexico	175	0.6	21.4	15.9	13.6	-3.0	34.5	17.4	2.5	15.4	2.0	2.3	8.6	3.5	-5.7
Chile	68	0.2	18.8	17.2	14.8	26.8	9.3	16.1	2.6	14.7	2.5	2.8	10.8	2.5	-1.6
Colombia	33	0.1	21.9	19.0	16.8	36.0	15.4	13.2	2.5	16.6	3.0	3.8	12.3	-0.8	-2.9
Peru	19	0.1	14.4	10.4	9.5	26.8	38.9	10.0	3.0	29.3	3.6	9.6	18.2	1.3	-28.1
CEEMEA	737	2.5	10.7	8.7	8.0	29.9	22.4	8.8	1.4	16.2	3.3	1.5	5.8	3.3	-1.9
South Africa	291	1.0	15.0	12.0	10.1	22.3	25.1	18.9	2.1	17.4	3.7	1.6	7.4	4.3	-2.9
Russia	272	0.9	7.8	6.2	6.0	45.1	24.5	3.4	1.0	16.2	2.4	1.4	4.7	3.9	0.2
Poland	68	0.2	14.0	10.7	10.4	20.3	30.8	2.8	1.5	14.0	4.4	1.7	5.5	-0.1	2.1
Turkey	55	0.2	10.6	10.6	9.5	12.3	-0.1	11.7	1.7	15.6	3.1	1.5	8.0	2.3	-6.2
Hungary	17	0.1	11.6	9.4	8.2	8.7	22.7	15.5	1.2	12.7	3.7	1.1	6.8	2.2	6.2
Czech Republic	15	0.1	10.7	11.7	11.1	-2.9	-8.8	5.8	2.0	16.8	6.3	2.6	5.4	-0.2	5.9
Egypt	13	0.0	12.5	10.1	8.8	-10.7	23.7	14.9	1.3	12.9	4.3	2.4	7.5	-2.1	-24.2
Morocco	6	0.0	15.0	14.0	13.1	12.2	7.7	6.7	4.1	29.1	5.2	4.4	7.6	-0.9	-6.3
Israel	81	0.3	10.7	9.9	8.8	21.7	8.5	11.4	1.7	17.4	3.4	2.7	9.6	0.9	-12.3

Source: Citi Investment Research and Analysis, MSCI, World Scope, Factset Consensus estimates

Figure 32. Global Market Intelligence by Sector

30 Jun 11	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US\$bn	%	10E	11E	12E	10E	11E	12E	11E	11E	11E	10	10	Weekly	YTD
Global	29,386	100	14.4	12.4	10.9	43.9	16.3	14.0	1.7	13.7	2.7	1.5	7.8	3.2	1.0

Level One

Energy	3,472	11.8	13.2	10.4	9.6	35.3	26.8	8.8	1.6	15.7	2.6	1.2	6.5	4.0	4.0
Materials	2,672	9.1	15.6	11.3	10.0	81.2	38.9	12.9	1.8	16.4	2.2	1.8	8.1	4.2	-3.2
Industrials	3,226	11.0	16.5	13.8	11.9	48.3	19.2	15.8	2.0	14.5	2.4	1.4	9.5	3.6	2.0
Consumer Disc.	2,975	10.1	17.6	14.9	12.3	143.5	18.0	21.1	2.0	13.2	1.9	1.3	8.0	3.8	4.0
Consumer Staples	2,782	9.5	16.8	15.4	13.9	11.3	9.1	11.2	2.8	18.2	3.0	1.5	9.4	1.8	3.2
Health Care	2,521	8.6	13.3	12.4	11.6	8.4	7.9	6.4	2.5	20.0	2.7	2.0	8.8	2.0	8.6
Financials	5,956	20.3	12.7	11.2	9.4	70.8	13.6	18.9	1.1	9.7	3.2	NA	NA	3.4	-2.9
IT	3,321	11.3	14.7	13.1	11.5	65.8	12.3	14.3	2.5	18.7	1.4	1.7	8.0	2.7	-1.4
Telecoms	1,352	4.6	13.1	12.3	11.4	3.5	6.3	8.6	1.7	13.9	5.4	1.9	5.7	2.2	1.3
Utilities	1,107	3.8	12.7	13.7	12.7	-10.5	-2.3	17.1	1.3	8.5	4.6	1.6	7.2	2.9	-1.9

Level Two

Energy	3,472	11.8	13.2	10.4	9.6	35.3	26.8	8.8	1.6	15.7	2.6	1.2	6.5	4.0	4.0
Materials	2,672	9.1	15.6	11.3	10.0	81.2	38.9	12.9	1.8	16.4	2.2	1.8	8.1	4.2	-3.2
Capital Goods	2,437	8.3	16.3	13.2	11.5	39.6	24.0	14.9	2.0	15.4	2.4	1.3	10.2	3.9	2.9
Comm Svc & Supp	207	0.7	18.6	16.7	14.4	15.1	11.8	15.6	2.5	15.2	2.6	1.3	9.1	2.3	1.2
Transport	582	2.0	16.4	16.1	13.4	130.8	1.5	20.6	1.8	10.9	2.2	1.6	7.9	2.7	-1.5
Autos	796	2.7	13.5	11.7	9.3	498.4	14.6	26.5	1.4	11.8	1.7	0.9	7.1	4.5	5.7
Consumer Durables	429	1.5	25.8	18.2	14.0	96.8	41.6	30.7	1.8	9.7	1.8	1.4	9.0	4.6	-3.1
Consumer Services	395	1.3	20.7	17.9	15.7	21.8	15.6	14.2	3.2	17.9	2.1	2.2	10.8	3.3	3.9
Media	663	2.3	17.7	14.6	12.5	21.2	21.3	16.1	2.0	14.2	2.2	2.0	7.5	4.6	8.6
Retailing	693	2.4	18.8	17.0	14.6	25.6	10.5	16.0	2.8	16.5	1.7	1.2	8.8	2.2	2.9
Food & Staples	635	2.2	15.9	14.5	12.8	11.8	9.6	13.6	2.0	13.8	2.8	0.7	7.3	1.5	0.6
Food Bev & Tobac.	1,701	5.8	17.0	15.5	14.1	11.9	9.7	10.7	3.1	20.0	3.2	2.1	10.1	2.1	4.8
Household Products	445	1.5	17.6	16.7	15.2	8.1	5.6	9.7	3.6	21.3	2.8	2.1	10.7	1.5	1.5
Health Care	650	2.2	16.1	14.9	13.3	15.6	7.9	12.2	2.5	17.0	1.1	1.2	8.5	1.4	14.3
Pharma & Biotech	1,872	6.4	12.6	11.7	11.2	6.6	7.9	4.8	2.5	21.0	3.2	2.5	9.0	2.2	6.7
Banks	2,761	9.4	11.9	10.3	8.8	62.2	16.0	17.0	1.1	11.0	3.8	NA	NA	3.7	-3.8
Div Financials	1,343	4.6	11.8	10.6	8.6	216.6	11.5	23.1	0.9	9.0	1.8	NA	NA	3.3	-5.8
Insurance	1,147	3.9	12.8	11.6	9.6	27.6	10.4	21.8	1.1	9.1	3.3	NA	NA	3.3	0.3
Real Estate	706	2.4	21.3	18.9	17.1	32.5	13.1	10.4	1.3	6.9	3.5	NA	NA	2.7	1.1
Software & Services	1,374	4.7	16.8	14.7	13.0	17.5	13.8	13.0	3.7	24.8	1.2	2.7	9.2	4.2	3.3
Tech	1,333	4.5	14.7	12.6	10.9	80.2	16.8	16.2	2.0	15.7	1.3	1.3	8.2	2.2	-5.3
Semi & Semi Equip	614	2.1	11.6	11.2	10.1	233.6	2.2	12.7	2.0	17.9	2.3	1.7	5.8	0.9	-2.6
Telecom	1,352	4.6	13.1	12.3	11.4	3.5	6.3	8.6	1.7	13.9	5.4	1.9	5.7	2.2	1.3
Utilities	1,107	3.8	12.7	13.7	12.7	-10.5	-2.3	17.1	1.3	8.5	4.6	1.6	7.2	2.9	-1.9

Source: Citi Investment Research and Analysis, MSCI, World Scope, Factset Consensus estimates

Figure 33. 2011 P/E Estimates by Region and Sector

30 Jun 11 P/E 11E	Global	DM	GEM	US	Eur ex UK	UK	Jap	Dev Asia	Em Asia	Lat Am	CEEMEA
Region	12.4	12.7	11.0	13.5	11.3	10.5	14.2	12.9	12.0	11.1	8.7
Level One											
Energy	10.4	11.1	7.8	11.6	9.0	8.6	7.4	21.4	10.5	9.7	5.5
Materials	11.3	11.8	9.7	13.0	12.8	8.3	13.8	11.5	11.0	8.1	10.6
Industrials	13.8	13.9	12.8	15.2	13.7	12.8	11.8	12.4	12.2	19.3	11.3
Consumer Disc.	14.9	15.2	12.4	15.9	12.2	13.8	19.3	15.6	11.7	14.4	15.0
Consumer Staples	15.4	15.1	19.0	15.1	15.4	13.6	18.8	15.6	18.0	20.2	18.7
Health Care	12.4	12.3	19.7	12.7	11.8	9.9	15.4	17.8	22.5	22.4	14.2
Financials	11.2	11.2	11.0	12.7	8.7	11.4	11.9	12.3	11.1	11.4	10.2
IT	13.1	13.2	12.9	12.8	14.3	26.7	15.5	17.4	12.9	13.4	9.6
Telecom Services	12.3	12.4	12.0	18.1	10.1	10.0	11.3	12.1	12.7	11.3	11.8
Utilities	13.7	13.8	13.0	13.7	11.6	12.6	44.3	16.4	16.4	11.2	11.4
Level Two											
Energy	10.4	11.1	7.8	11.6	9.0	8.6	7.4	21.4	10.5	9.7	5.5
Materials	11.3	11.8	9.7	13.0	12.8	8.3	13.8	11.5	11.0	8.1	10.6
Capital Goods	13.2	13.3	12.1	14.8	13.6	11.5	10.7	9.6	11.9	17.1	11.2
Comm Svc & Supp	16.7	16.7	15.2	16.9	16.1	15.8	17.2	18.7	15.2		
Transport	16.1	16.2	15.8	16.5	13.6		17.6	17.8	14.0	21.5	12.7
Autos & Components	11.7	12.0	10.5	9.6	9.6		17.3		10.5		
Consumer Durables	18.2	20.0	10.3	17.5	17.9	25.7	30.9	10.0	13.4	8.2	9.0
Consumer Services	17.9	18.0	15.6	19.1	13.6	14.7	21.6	17.1	14.9	21.8	
Media	14.6	14.3	20.2	15.6	10.7	14.0	21.4	12.5	19.4	19.7	20.5
Retailing	17.0	17.1	16.7	17.6	19.6	10.7	16.8	15.0	15.3	27.6	12.7
Food & Staples Retailing	14.5	13.8	23.2	14.2	12.2	11.5	18.7	15.5	20.3	25.6	22.7
Food Bev & Tobacco	15.5	15.3	16.8	15.3	15.8	14.2	17.6	16.0	15.8	18.7	13.5
Household Products	16.7	16.2	24.8	15.8	18.1	14.3	22.6		28.3	19.1	
Health Care Equip & Svc	14.9	14.8	21.1	14.0	18.9	13.8	23.4	18.0	32.5	22.4	13.8
Pharma & Biotech	11.7	11.6	19.0	12.0	11.2	9.8	14.3	17.7	21.0		14.5
Banks	10.3	10.2	10.3	12.4	8.2	11.6	8.6	11.1	10.3	10.7	9.8
Div Financials	10.6	10.5	12.9	11.0	8.1	10.4	23.0	17.2	12.8	17.8	10.5
Insurance	11.6	11.3	15.8	12.0	9.5	9.6	19.1	13.6	18.1	10.4	10.8
Real Estate	18.9	20.5	11.0	35.2	17.5	22.0	20.2	13.7	10.1	22.3	12.9
Software & Services	14.7	14.4	20.8	14.1	15.6	17.6	18.4	16.1	23.0	13.4	9.6
Tech Hardware & Equip	12.6	12.5	14.2	11.9	16.6		14.9	-204.0	14.2		
Semi & Semi Equip	11.2	11.9	10.3	11.6	9.4	54.6	17.3	13.9	10.3		
Telecom	12.3	12.4	12.0	18.1	10.1	10.0	11.3	12.1	12.7	11.3	11.8
Utilities	13.7	13.8	13.0	13.7	11.6	12.6	44.3	16.4	16.4	11.2	11.4

Source: Citi Investment Research and Analysis, MSCI, World Scope, Factset Consensus estimates

Figure 34. Current Prices & Ratings For Stocks Mentioned In This Report*

RIC	Stock Name	Price	Rating	Currency	RIC	Stock Name	Price	Rating	Currency
MMM.N	3M Company	96.14	2M	USD	KEY.N	Keycorp	8.3	2H	USD
ABBN.VX	ABB Ltd	21.86	1H	CHF	KGHM.WA	KGHM Polska Miedz SA	198	3H	PLN
ABT.N	Abbott Laboratories	53.16	3M	USD	KMB.N	Kimberly-Clark	66.52	1L	USD
ABE.MC	Abertis	14.99	2M	EUR	KG.F.L	Kingfisher PLC	2.667	1M	GBP
ABI.BR	AB-InBev	40.18	1M	EUR	KSS.N	Kohl's Corp	51.52	1H	USD
ACN.N	Accenture Ltd	61.75	1M	USD	6301.T	Komatsu	2591	1M	JPY
ACCP.PA	Accor SA	31.2	1M	EUR	KFT.N	Kraft Foods Inc	35.62	1M	USD
ACE.N	ACE Ltd	65.3	1M	USD	KR.N	Kroger Co	25.04	2M	USD
ADEN.VX	Adecco	55.8	1M	CHF	KNIN.VX	Kuehne & Nagel International	126	2M	CHF
ADSGn.DE	adidas AG	55.63		EUR	6971.T	Kyocera	8370	2H	JPY
AFL.N	AFLAC Inc	46.45	2H	USD	LAND.L	Land Securities	8.86	1M	GBP
AGGK.L	Aggreko PLC	19.91	1M	GBP	LVS.N	Las Vegas Sands	44.1	1L	USD
1288.HK	Agricultural Bank of China	3.98	1L	HKD	LLC.AX	Lend Lease Corp	9.13	1M	AUD
AHLN.AS	Ahold	9.316	2M	EUR	051910.KS	LG Chem	495000	2L	KRW
1299.HK	AIA Group	27.3	1L	HKD	0494.HK	Li&Fung	15.000001	2L	HKD
APD.N	Air Products and Chemicals Inc	96.29	1M	USD	OREP.PA	L'Oréal Group	89.97	1L	EUR
AA.N	Alcoa Inc.	16.39	2H	USD	LO.N	Lorillard Inc.	108.96	1M	USD
ALLL3.SA	All Amer Latina	12.95	1H	BRL	LOW.N	Lowe's Cos Inc	23.48	2M	USD
AGN.N	Allergan Inc	84.51	1M	USD	LKO.H.MM	Lukoil	1810.5	1M	RUB
ALVG.DE	Allianz SE	96.8	1M	EUR	LULU.O	lululemon athletica inc	118.75		USD
ALL.N	Allstate Corp	30.78	2H	USD	LVMH.PA	LVMH	127.85	1M	EUR
ALTR.O	Altera Corp	47.12	1H	USD	MTB.N	M&T Bank Corp	88.00001	2M	USD
MO.N	Altria Group Inc	26.6	2M	USD	MQG.AX	Macquarie Group Limited	31.05	3H	AUD
AMZN.O	Amazon.com Inc	213.19	1H	USD	M.N	Macy's Inc	29.6	1H	USD
ABV.N	AmBev	34.49	1M	USD	MAN.N	Manpower Inc	55.81	1H	USD
AMX.N	América Móvil SA de CV	26.98	1M	USD	MFC.TO	Manulife Financial Corp	17.02	3H	CAD
AEP.N	American Electric Power Co Inc	38.51	2M	USD	MRO.N	Marathon Oil Corp	34.07	1M	USD
AXP.N	American Express Co.	52.33	1M	USD	MKS.L	Marks and Spencer Group PLC	3.764	1M	GBP
AMT.N	American Tower Corp	53.59	1H	USD	MAR.N	Marriott International	36.64	1M	USD
AMGN.O	Amgen Inc	57.92	1M	USD	MMC.N	Marsh & McLennan Companies	31.48	1M	USD
APC.N	Anadarko Petroleum Corp	79.31	1H	USD	MRVL.O	Marvell Technology Group Ltd.	15.19	1H	USD
ADI.N	Analog Devices	39.46	1M	USD	MA.N	MasterCard Inc.	315.96	2M	USD
AAL.L	Anglo American PLC	31.14	1M	GBP	MAT.O	Mattel Inc	27.91	1H	USD
ANGJ.J	AngloGold Ashanti Ltd	282.98	2M	ZAR	MCD.N	McDonald's Corp	85.64	2L	USD
NLY.N	Annaly Capital Management	18.26	2S	USD	MCK.N	McKesson Corp	84	2M	USD
AON.N	Aon Corp	51.53	1M	USD	MHS.N	Medco Health Solutions Inc	56.19	1M	USD
MAERSKb.CO	AP Moller Maersk A/S	43840	1H	DKK	2454.TW	MediaTek	309	3L	TWD
APA.N	Apache Corp	124.49	1M	USD	MDT.N	Medtronic Inc	37.96	1M	USD
AAPL.O	Apple Inc	349.43	1H	USD	MRK.N	Merck	35.49	2M	USD
AMAT.O	Applied Materials Inc	13.09	2M	USD	MET.N	MetLife Inc	43.72	1M	USD
ARCLK.IS	Arcelik	8.3	1M	TRY	MEOG.DE	Metro AG	41.365	2H	EUR
ADM.N	Archer-Daniels-Midland Company	31.01	1H	USD	MEXCHEM.MX	Mexichem SA CV	47.99	1H	MXN
ARM.L	ARM Holdings PLC	6.08	3H	GBP	MICP.PA	Michelin	66.99	1M	EUR
AEMN.SI	Ascendas REIT	2.1	1L	SGD	MSFT.O	Microsoft Corp.	26.03	1L	USD
ASML.AS	ASML Holding NV	26.12	3H	EUR	8058.T	Mitsubishi Corp.	2072	1M	JPY
GASI.MI	Assicurazioni Generali SpA	14.39	2M	EUR	6503.T	Mitsubishi Electric	958	1H	JPY
AZN.L	AstraZeneca PLC	31.755	1M	GBP	8802.T	Mitsubishi Estate	1473	1M	JPY
T.N	AT&T Inc	31.63	1M	USD	8306.T	Mitsubishi UFJ Financial Group	410	1H	JPY
ATL.MI	Atlantia	13.48	1M	EUR	8031.T	Mitsui & Co.	1440	1M	JPY
ANZ.AX	ANZ Banking Grp	21.85	1M	AUD	8801.T	Mitsui Fudosan	1473	1M	JPY
ALV.N	Autoliv Inc.	79.08	1M	USD	8411.T	Mizuho Financial Group	138	1H	JPY
ADP.O	Automatic Data Processing Inc	53.67	1L	USD	MBT.N	Mobile Telesystems OJSC	18.75	1M	USD
AUTN.L	Autonomy Corp	17.43		GBP	MON.N	Monsanto Co	73.77	1M	USD
AVGO.O	Avago Technologies	38.96	1H	USD	MS.N	Morgan Stanley	23.15	2H	USD
AVP.N	Avon Products Inc	27.72	1H	USD	MRW.L	Morrison (Wm)	3.004	1L	GBP
AXAF.PA	AXA SA	15.44	2H	EUR	MOS.N	Mosaic Co	68.73	1H	USD
BBA33.SA	Banco do Brasil	28.29	1M	BRL	MTNJ.J	MTN Group Limited	146.49	1H	ZAR
SAN.MC	Banco Santander	7.82	2M	EUR	MUVGn.DE	Munich Re	105.6	2M	EUR
BAC.N	Bank of America Corp	11.000001	1H	USD	NAB.AX	National Australia Bank Ltd	24.96	1M	AUD
3988.HK	Bank of China	3.72	2L	HKD	NG.L	National Grid PLC	6.15	2M	GBP
BK.N	Bank of New York Mellon Corp	25.7		USD	NOV.N	National Oilwell Varco Inc	80.05	1H	USD
BNS.TO	Bank of Nova Scotia	57.6		CAD	NESN.VX	Nestle	52.85	2L	CHF
BARC.L	Barclays PLC	2.572	1M	GBP	NTAP.O	NetApp, Inc.	53.94	2H	USD

ABX.N	Barrick Gold	45.98	1M	USD	NFLX.O	Netflix Inc	289.63	1H	USD
BASFn.DE	BASF SE	68.01	1M	EUR	NCM.AX	Newcrest Mining Ltd	38.15	1M	AUD
BAX.N	Baxter International Inc	60.17	3M	USD	NWL.N	Newell Rubbermaid Inc	15.97	1M	USD
BAYGn.DE	Bayer AG	56.81	1M	EUR	NEM.N	Newmont Mining	54.37	2M	USD
BBT.N	BB&T Corp	27.13		USD	NWSA.O	News Corp	18.13	1M	USD
BDX.N	Becton, Dickinson and Company	89.17	1L	USD	NXT.L	Next Group PLC	23.36543	1M	GBP
BBBY.O	Bed Bath & Beyond Inc	59.3	1M	USD	NEE.N	NextEra Energy Inc	57.69	2M	USD
BEIG.DE	Beiersdorf	45.22	3M	EUR	035420.KS	NHN	189000	2L	KRW
1880.HK	Belle	16.64	1L	HKD	NIHD.O	NII Holdings Inc	42.9	1H	USD
BRKa.N	Berkshire Hathaway Inc	115860		USD	NKE.N	Nike Inc	91.74	1L	USD
BG.L	BG Group	14.47	1M	GBP	7731.T	Nikon	1905	2M	JPY
BHP.AX	BHP Billiton Ltd	44.45	1M	AUD	7974.OS	Nintendo	15900	3H	JPY
BLT.L	BHP Billiton PLC	24.565	1M	GBP	9432.T	Nippon Telegraph & Telephone	3900	1H	JPY
BVMF3.SA	BMFBOVESPA	10.55		BRL	7201.T	Nissan Motor	877	1M	JPY
BMWG.DE	BMW AG	68.26	1M	EUR	NOK1V.HE	Nokia Oyj	4.37	3H	EUR
BNPP.PA	BNP Paribas SA	52.53	1M	EUR	8604.T	Nomura Holdings	405	1H	JPY
BA.N	Boeing Co.	74.15	1H	USD	NSC.N	Norfolk Southern Corp.	75.96	1M	USD
BWA.N	Borg Warner Inc	80.66	2M	USD	GMKN.RTS	Norilsk Nickel	261.8	1H	USD
BXP.N	Boston Properties Inc	109.76	2H	USD	NOVN.VX	Novartis AG	51.45	1L	CHF
BP.L	BP	4.509	2M	GBP	NVTkq.L	Novatek OAO	144	2M	USD
BBDC4.SA	Bradesco	32.14	1M	BRL	NOVOB.CO	Novo Nordisk A/S	657.5	1M	DKK
BXB.AX	Brambles Ltd	7.23	2M	AUD	9437.T	NTT DoCoMo	142500	1L	JPY
BRFS3.SA	Brasil Foods SA	26.5	3H	BRL	NVDA.O	NVIDIA Corp	15.88	2S	USD
BMV.N	Bristol-Myers Squibb	29.16	1M	USD	OXY.N	Occidental Petroleum Corp	106.75	2M	USD
BATS.L	British American Tobacco PLC	28.07	2L	GBP	OGXP3.SA	OGX	15.08	2S	BRL
BSY.L	British Sky Broadcasting Group PLC	8.43	1M	GBP	7733.T	Olympus	2729		JPY
BRCM.O	Broadcom Corporation	34.27	1H	USD	OMC.N	Omnicom	48.73	1M	USD
BAMa.TO	Brookfield Asset Management Inc	32.13		CAD	ORCL.O	Oracle Corporation	33.06	1L	USD
BT.L	BT Group PLC	2.033	1M	GBP	6752.T	Panasonic	1031	1H	JPY
BRBY.L	Burberry Group PLC	14.66	2M	GBP	PDGR3.SA	PDG Realty	8.75	1H	BRL
CHRW.O	C.H. Robinson Worldwide Inc.	80.47	2M	USD	PSON.L	Pearson PLC	11.98	2M	GBP
CNI.N	Canadian National Railway Company	79.98	2M	USD	PEP.N	PepsiCo	69.77	2L	USD
CP.N	Canadian Pacific Railway Limited	62.55	2M	USD	PERP.PA	Pernod-Ricard	68.96	1M	EUR
7751.T	Canon	3880	1M	JPY	0857.HK	PetroChina	11.52	2L	HKD
CAPP.PA	Cappgemini SA	40.005		EUR	PBR.N	Petróleo Brasileiro - Petrobras	33.75	1H	USD
CPI.L	Capita Group PLC	7.22	1M	GBP	PFE.N	Pfizer	20.77	2H	USD
COF.N	Capital One Financial Corp.	53.06	1M	USD	PCG.N	PG&E Corp	42.14	2L	USD
CCL.N	Carnival Corp.	38.33	1H	USD	PM.N	Philip Morris International	67.19	2L	USD
CCL.L	Carnival PLC	24.37		GBP	PHG.AS	Philips Electronics NV	17.61	2M	EUR
CARR.PA	Carrefour	23.755	2M	EUR	PBI.N	Pitney Bowes Inc	23.14		USD
CAT.N	Caterpillar Inc.	108.43	2M	USD	PKOB.WA	PKO BP	41.62	2L	PLN
CBS.N	CBS Corp	28.57	2H	USD	PNC.N	PNC Financial Services Group	60.27	2H	USD
CELG.O	Celgene Corp	60.31	1M	USD	2685.T	Point	3450	1M	JPY
9022.T	Central Japan Railway	638000		JPY	RL.N	Polo Ralph Lauren Corp	135.54	1M	USD
CNA.L	Centrica PLC	3.274	2M	GBP	005490.KS	POSCO	466000	1M	KRW
CTL.N	CenturyLink	41	1M	USD	POT.N	Potash Corp of Saskatchewan	57.65	1M	USD
CEZPsp.PR	CEZ	852	1M	CZK	PPG.N	PPG Industries Inc	91.49	2M	USD
0001.HK	Cheung Kong	115.6	1L	HKD	PPL.N	PPL Corp	27.88	2M	USD
CVX.N	Chevron	105.12	1M	USD	PRT.PA	PPR	124.9	1M	EUR
0939.HK	China Construction Bank	6.27	1L	HKD	PX.N	Praxair Inc	108.41	1M	USD
2628.HK	China Life Insurance	27.3	2L	HKD	PCLN.O	Priceline.Com Inc	535.37	1H	USD
3968.HK	China Merchants Bank	18.5	1L	HKD	PG.N	Procter & Gamble Co	64.26	1L	USD
0941.HK	China Mobile	72.35	1L	HKD	PLD.N	Prologis Inc	36.2	2H	USD
CMG.N	Chipotle Mexican Grill, Inc.	321.45	2M	USD	PRU.N	Prudential Financial Inc	64.17	2M	USD
DIOR.PA	Christian Dior SA	111.3		EUR	PRU.L	Prudential Plc	7.3	1H	GBP
CB.N	Chubb Corp	62.2	2M	USD	PEG.N	Public Service Enterprise Group	32.65	2M	USD
CHD.N	Church & Dwight Co Inc	40.89	2M	USD	PSA.N	Public Storage Inc	117.47	1M	USD
CIEL3.SA	Cielo	39	1M	BRL	PZU.WA	PZU	381.8	1L	PLN
CTAS.O	Cintas Corp	33.82	2H	USD	QBE.AX	QBE Insurance Group Ltd	17.46	2M	AUD
CSCO.O	Cisco Systems, Inc.	15.67	2M	USD	QCOM.O	Qualcomm Inc	58.14	1M	USD
CIT.N	CIT Group Inc.	44.12	1H	USD	4755.OS	Rakuten	80800	2S	JPY
C.N	Citigroup Inc	42.57		USD	RAND.AS	Randstad	31.645	1M	EUR
CLN.VX	Clariant	15.76	1H	CHF	RB.L	Reckitt Benckiser	35.7	1L	GBP
0002.HK	CLP Holdings	67.45	2L	HKD	ELSN.AS	Reed Elsevier NV	9.377		EUR
0883.HK	CNOOC	18.3	1L	HKD	REL.L	Reed Elsevier PLC	5.735	1M	GBP
COH.N	Coach, Inc.	66.76		USD	RF.N	Regions Financial Corp	6.17		USD

CTSH.O	Cognizant	75.67	1M	USD	RELI.BO	Reliance Industries	845.8	1L	INR
CL.N	Colgate-Palmolive Co	87.98	1L	USD	RSG.N	Republic Services Inc	31.12		USD
CMCSA.O	Comcast Corp	25.97	1M	USD	RIMM.O	Research In Motion Ltd	28.92	3S	USD
CBA.AX	Commonwealth Bank of Australia	51.47	2M	AUD	CFR.VX	Richemont	56.4	1M	CHF
VALEp.N	Comp Vale Do Rio P	30.000002	1M	USD	RIO.AX	Rio Tinto Ltd	83.6	1M	AUD
CSNA3.SA	Companhia Siderurgica Nacional	19.35	1H	BRL	RIO.L	Rio Tinto PLC	44.845	1M	GBP
CPG.L	Compass Group	6.045	1M	GBP	ROG.VX	Roche Holding AG	139.2	2M	CHF
COP.N	ConocoPhillips	75.85	2H	USD	ROSN.MM	Rosneft	239.9	1M	RUB
GLW.N	Corning Incorporated	18.31	2H	USD	RY.TO	Royal Bank of Canada	54.85		CAD
COST.O	Costco Wholesale Corp	81.29	2M	USD	RDSa.L	Royal Dutch Shell	22.38	1M	GBP
COV.N	Covidien Ltd	53.78	1M	USD	RRD.OQ	RR Donnelley And Sons Co	20.03		USD
CSGN.VX	Credit Suisse	32.46	1M	CHF	RWEG.DE	RWE AG	38.405	3H	EUR
CCI.N	Crown Castle International Corp	42.54	2H	USD	SAB.L	SABMiller	23.075	2M	GBP
CSL.AX	CSL Ltd	32.36	1M	AUD	SWY.N	Safeway Inc	23.14	2H	USD
CSX.N	CSX Corp.	26.5	1M	USD	SGE.L	Sage Group PLC	2.893		GBP
CVS.N	CVS Caremark Corp	37.69	1M	USD	SGOB.PA	Saint Gobain	44.33	1M	EUR
7912.T	Dai Nippon Printing	934		JPY	005930.KS	Samsung Electronics	898000	1L	KRW
DAIGn.DE	Daimler AG	52.47	1M	EUR	1928.HK	Sands China	21.7	1L	HKD
DHR.N	Danaher Corporation	54.38	1M	USD	SASY.PA	Sanofi SA	55.6	1M	EUR
DANO.PA	Danone	51.41	2L	EUR	SAPG.DE	SAP AG	42.02		EUR
DRI.N	Darden Restaurants Inc.	53.48	1M	USD	SOLJ.J	Sasol Ltd	361.7	1M	ZAR
DJS.AX	David Jones Ltd	3.9	1M	AUD	SBAC.O	SBA Communications Corp	39.07	2H	USD
DBSM.SI	DBS Group	14.84	1L	SGD	SBER03.MM	Sberbank RF	104.2	1M	RUB
DE.N	Deere & Company	84.84	1M	USD	SLB.N	Schlumberger Ltd	88.35	1M	USD
DELL.O	Dell Inc	16.98	1M	USD	SCHN.PA	Schneider Electric SA	115.55	2H	EUR
6902.T	Denso	2939	1H	JPY	SSE.L	Scottish & Southern Energy PLC	14.1372	2L	GBP
DBGn.DE	Deutsche Bank	40.62	2H	EUR	9735.T	Secom Co Ltd	3845		JPY
DPWgN.DE	Deutsche Post	13.235	2M	EUR	3382.T	Seven & i Holdings	2231	1M	JPY
DTEGn.DE	Deutsche Telekom AG	10.566	1L	EUR	SGSN.VX	SGS	1628	2M	CHF
DGE.L	Diageo	13.06	2L	GBP	6753.T	Sharp	766	2H	JPY
DTV.O	DIRECTV Group Inc	52.01	2M	USD	SJRb.TO	Shaw Communications	21.97		CAD
D.N	Dominion Resources Inc	48.61	2M	USD	0813.HK	Shimao Property	10.56	1M	HKD
DOW.N	Dow Chemical Co	36.3	1H	USD	4063.T	Shin-Etsu Chemical	4380	1M	JPY
DUK.N	Duke Energy Corp	19.07	2M	USD	055550.KS	Shinhan Financial Group	51900	1L	KRW
DD.N	E I du Pont de Nemours and Co	54.45	1M	USD	6967.T	Shinko	772	1H	JPY
EONGn.DE	E.ON AG	19.585	2H	EUR	4911.T	Shiseido	1520	3M	JPY
9020.T	East Japan Railway	4865		JPY	0016.HK	SHK Props	116.4	1L	HKD
EBAY.O	eBay Inc	32.64	1H	USD	SC.TO	Shoppers Drug Mart Corp	40.44		CAD
ECO.CN	Ecopetrol S.A.	3855		COP	SIEGn.DE	Siemens AG	95.09	1H	EUR
LLY.N	Eli Lilly	37.28	2H	USD	SPG.N	Simon Property Group Inc	119.24	2M	USD
EMC.N	EMC Corporation	27.88	1M	USD	STEL.SI	SingTel	3.16	1L	SGD
EMR.N	Emerson Electric Co.	57.16	2M	USD	SN.L	Smith & Nephew PLC	6.74	1M	GBP
ENEL.MI	ENEL SpA	4.336	2M	EUR	EXHO.PA	Sodexo	53.93	2M	EUR
ENR.N	Energiizer Holdings Inc	74.74	1M	USD	9984.T	SoftBank	3160	1M	JPY
ENI.MI	Eni	16.33	2M	EUR	SHL.AX	Sonic Healthcare Ltd	12.34	2M	AUD
EFX.N	Equifax Inc	34.88		USD	SOON.VX	Sonova Holdings AG	79.2	2M	CHF
EQR.N	Equity Residential	61.62	3H	USD	6758.T	Sony	2193	1H	JPY
ERICb.ST	Ericsson LM	90.65	2H	SEK	SO.N	Southern Company Inc	40.59	1L	USD
ESSI.PA	Essilor	56.24		EUR	LUV.N	Southwest Airlines Co.	11.39	1H	USD
EL.N	Estee Lauder Inc	105.97	1M	USD	S.N	Sprint Nextel	5.39	1S	USD
EXC.N	Exelon Corp	42.96	2M	USD	SBKJ.J	Standard Bank Group	101.7	1L	ZAR
EXPd.O	Expeditors International Of Washington Inc	52.27		USD	STAN.L	Standard Chartered PLC	16.56	1M	GBP
EXPn.L	Experian Group Ltd	8.205		GBP	SBUX.O	Starbucks Corp	40.95	1M	USD
ESRX.O	Express Scripts Inc	53.66	2M	USD	HOT.N	Starwood Hotels & Resorts	58.44	1M	USD
XOM.N	Exxon Mobil Corp	81.6	1M	USD	STT.N	State Street Corp	45.13		USD
6954.T	Fanuc	14250	1M	JPY	SRCL.O	Stericycle Inc	91.72		USD
9983.T	Fast Retailing	12990	2M	JPY	STM.N	STMicroelectronics	10.25	1H	USD
FDX.N	FedEx Corp.	95.5	1M	USD	SYK.N	Stryker Corp	59.67	2M	USD
FMX.N	FEMSA	68.28	2M	USD	8316.T	Sumitomo Mitsui Financial Grp.	2582	1H	JPY
FITB.O	Fifth Third Bancorp	12.91	2H	USD	SU.N	Suncor Energy	40.35		USD
FE.N	FirstEnergy Corp	44.09	2M	USD	STI.N	SunTrust Banks Inc	25.87		USD
FSRJ.J	FirstRand Limited	20.1	1M	ZAR	UHR.VX	Swatch Group AG	434	1M	CHF
F.N	Ford Motor Co	14.1	1H	USD	0019.HK	Swire Pacific	114.4	1L	HKD
FO.N	Fortune Brands	64.75	2M	USD	SYST.VX	Synthes Inc	148	2L	CHF
FTE.PA	France Telecom	14.39	2L	EUR	SYN.N	Sysco Corp	31.28	2M	USD

BEN.N	Franklin Resources Inc	134.3	1L	USD	4502.T	Takeda Pharmaceutical	3760	1M	JPY
FCX.N	Freeport-McMoRan Copper & Gold	53.62	2H	USD	TGT.N	Target Corp	47.55	1M	USD
FMEG.DE	Fresenius Medical Care	51.68	1L	EUR	TCS.BO	Tata Consultancy Services	1180.35	2L	INR
FREG.DE	Fresenius SE & Co KGaA	71.66		EUR	TATN3.MM	Tatneft	191.2	3H	RUB
FTR.N	Frontier Communications Corp	8.11	2S	USD	TEL.N	TE Connectivity Ltd.	38	1H	USD
4901.T	Fujifilm Holdings	2504	2M	JPY	TEF.MC	Telefonica SA	16.53	2M	EUR
GFS.L	G4S	2.86	1M	GBP	0700.HK	Tencent Holdings	214.6	1L	HKD
GARAN.IS	Garanti Bank	7.5	1M	TRY	4543.T	Terumo	4440	1M	JPY
GAZP.MM	Gazprom	203.93	1M	RUB	TSCO.L	Tesco	4.051	3M	GBP
GSZ.PA	GDF Suez	24.805	1M	EUR	TEVA.O	Teva Pharmaceutical Industries	48.92	1H	USD
GE.N	General Electric Company	19.04	1M	USD	TXN.N	Texas Instruments Inc	32.92	1M	USD
GIS.N	General Mills Inc	37.16	1M	USD	CLX.N	The Clorox Co	67.97	2M	USD
GM.N	General Motors Company	30.86	1H	USD	KO.N	The Coca-Cola Company	68.3	1L	USD
GENT.KL	Genting	11.2	1L	MYR	TRJX.N	The TJX Companies, Inc.	53.73	3M	USD
GENS.SI	Genting Singapore	1.89	2L	SGD	TRI.N	Thomson Reuters Corp	37.37	2H	USD
GGBR4.SA	Gerdau SA	16.73	1H	BRL	THI.TO	Tim Hortons Inc	47.5		CAD
GETIb.ST	Getinge AB	167.3		SEK	TWC.N	Time Warner Cable Inc	79.97	1M	USD
GILD.O	Gilead Sciences Inc	41.57	2H	USD	TWX.N	Time Warner Inc	36.88	1M	USD
GSK.L	GlaxoSmithKline PLC	13.5	2L	GBP	8766.T	Tokio Marine Holdings	2388	1M	JPY
GFIJ.J	Gold Fields Ltd	97.67	3M	ZAR	8035.T	Tokyo Electron	4485	2H	JPY
GS.N	Goldman Sachs Group, Inc.	134.5	1H	USD	TD.TO	Toronto Dominion Bank	81.01		CAD
GT.N	Goodyear Tire & Rubber Co	17.35	1H	USD	6502.T	Toshiba	432	1H	JPY
GOOG.O	Google Inc	532.44	2H	USD	TOTF.PA	Total	39.615	3M	EUR
GMEXICOB.MX	Grupo Mexico	39.09	2H	MXN	7203.T	Toyota Motor	3425	2M	JPY
TV.N	Grupo Televisa	24.29	1M	USD	TCL.AX	Transurban	5.2	2M	AUD
HAL.N	Halliburton Co	52.15	1H	USD	TRV.N	Travelers Companies, Inc	58.53	2M	USD
HOG.N	Harley-Davidson Inc	42.85	2H	USD	TRW.N	TRW Automotive Holdings Corp	59.62		USD
HAS.O	Hasbro Inc	46	2H	USD	2330.TW	TSMC	72.8	1L	TWD
HCP.N	HCP Inc	37.5	2H	USD	UBSN.VX	UBS	15.21	1M	CHF
1044.HK	Hengan International	72.55	2L	HKD	2303.TW	UMC	14.3	1L	TWD
HNKG_p.DE	Henkel	49.43	2M	EUR	UNBP.PA	Unibail RodamCo Se	160.85		EUR
HMB.ST	Hennes & Mauritz AB	220	2M	SEK	8113.T	Unicharm Corp	3495		JPY
HPQ.N	Hewlett-Packard Co	36.46	1M	USD	UNc.AS	Unilever NV	23.07	1L	EUR
HLL.BO	Hindustan Unilever	330.9	2L	INR	ULVR.L	Unilever PLC	20.43	1L	GBP
6501.T	Hitachi	491	2H	JPY	UNP.N	Union Pacific Corp.	105.72	1M	USD
HNZ.N	HJ Heinz Co	53.42	1M	USD	UPS.N	United Parcel Service Inc.	73.78	1L	USD
HD.N	Home Depot Inc	36.59	1M	USD	UTX.N	United Technologies Cor	89.51	2M	USD
2317.TW	Hon Hai Precision	98.5	1L	TWD	UNH.N	UnitedHealth	52.85	1L	USD
7267.T	Honda Motor	3245	2M	JPY	UOBH.SI	UOB	19.7	2L	SGD
HON.N	Honeywell International Inc.	59.46	2M	USD	USB.N	US Bancorp	25.59	1M	USD
0388.HK	Hong Kong Exchanges & Clearing	167.4	1L	HKD	VALEp.N	Vale (Preferred)	30.000002	1M	USD
HST.N	Host Hotels & Resorts	17.45	2M	USD	VRSK.OQ	Verisk Analytics Inc	34.75		USD
HSBA.L	HSBC Holdings PLC	6.258	1M	GBP	VZ.N	Verizon Communications Inc	37.82	2M	USD
2498.TW	HTC Corporation	1095	1L	TWD	VFC.N	VF Corp	111.1	2M	USD
0013.HK	Hutchison Whampoa	84.9	1L	HKD	VIAb.N	Viacom Inc	51.95	1M	USD
000660.KS	Hynix	26500	1M	KRW	SGEF.PA	Vinci	43.735	1L	EUR
000720.KS	Hyundai E&C	86300	1M	KRW	V.N	Visa Inc.	88.32	2M	USD
012330.KS	Hyundai Mobis	399500	1M	KRW	VIV.PA	Vivendi	18.96	1M	EUR
005380.KS	Hyundai Motor	246500	1M	KRW	VOD.L	Vodafone Group PLC	1.6585	1L	GBP
ICBK.BO	ICICI Bank	1078.4	2M	INR	VNO.N	Vornado Realty Trust	95.42	2H	USD
ITW.N	Illinois Tool Works Inc.	57.65	1M	USD	WAG.N	Walgreen Co	42.73	2M	USD
IMPJ.J	Impala Platinum	179.5	1M	ZAR	WMT.N	Wal-Mart Stores Inc	53.39	1M	USD
IMT.L	Imperial Tobacco Group PLC	21.39	2M	GBP	WALMEXV.MX	Walmex	34.85	1L	MXN
ITX.MC	Inditex	63.63	1M	EUR	DIS.N	Walt Disney Co	39.97	2M	USD
1398.HK	Industrial & Commercial Bank of China	5.78	1L	HKD	WM.N	Waste Management Inc	37.62		USD
IFXGn.DE	Infineon Technologies	7.969	2S	EUR	WLP.N	WellPoint	80.22	1L	USD
INFY.BO	Infosys Ltd	2946	2L	INR	WFC.N	Wells Fargo & Co	28.42	2H	USD
ING.AS	ING Groep NV	8.532	2H	EUR	WES.AX	Wesfarmers Ltd	31.88	2M	AUD
1605.T	Inpex	598000	1H	JPY	WDC.AX	Westfield Group	8.75	1M	AUD
INTC.O	Intel Corp	22.44	1M	USD	WBC.AX	Westpac Banking Corp	21.89	2M	AUD
IHG.L	Intercontinental Hotels Group Plc	13.08	1M	GBP	WY.N	Weyerhaeuser Co	22.15		USD
IBM.N	International Business Machines Corp	175.43	1M	USD	0004.HK	Wharf (Holdings)	54.65	1L	HKD
INVEb.ST	Investor AB	147.1		SEK	WHR.N	Whirlpool Corp	81.81		USD
IRM.N	Iron Mountain Inc	34.63	2H	USD	WFM.O	Whole Foods Market Inc	63.82	2M	USD
ITUB4.SA	Itaú Unibanco	36.76	1M	BRL	WIN.O	Windstream Communications	13.21	1H	USD
ITSA4.SA	Itaúsa Investimentos Itaú SA	12.05		BRL	WPL.AX	Woodside Petroleum Ltd	40.92	2M	AUD

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6 July 2011

8001.T	Itochu Corp	877	1M	JPY	WHLJ.J	Woolworths Hld	30.66	1L	ZAR
JBHT.O	J.B. Hunt Transport Services Inc.	47.56	2M	USD	WOW.AX	Woolworths Ltd	27.69	1L	AUD
JNJ.N	Johnson & Johnson Inc	67.62	1L	USD	WPP.L	WPP Group PLC	7.715	1M	GBP
JCI.N	Johnson Controls Inc	42.25	2H	USD	1128.HK	Wynn Macau	27.05	3H	HKD
JPM.N	JP Morgan Chase & Co	41.03	1M	USD	WYNN.O	Wynn Resorts	151.16	3M	USD
JNPR.N	Juniper Networks, Inc.	31.79	1H	USD	XLNX.O	Xilinx Inc	36.63	2H	USD
9503.T	Kansai Electric Power	1585	1S	JPY	XTA.L	Xstrata PLC	13.845	1M	GBP
4452.T	Kao	2152		JPY	YUM.N	YUM! Brands Inc.	56.6	2M	USD
K.N	Kellogg Co	55.14	1L	USD	ZURN.VX	Zurich Financial Services AG	209.3	1M	CHF

Source: Citi Investment Research and Analysis. *Prices sourced from DataCentral as of 5 July 2011

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

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hynix Semiconductor. As at 06 Jul 11 CGMK holds 2,873,220 Citi ELW 1077, 2,345,620 Citi ELW 1078, 2,755,820 Citi ELW 1159, 65,140 Citi ELW 1263, 2,792,840 Citi ELW 1302, 2,694,520 Citi ELW 1371, 3,045,470 Citi ELW 1372, 3,399,490 Citi ELW 1412, 3,399,970 Citi ELW 1464, 3,393,600 Citi ELW 1516, 3,600,000 Citi ELW 1517, 3,400,000 Citi ELW 1539, 3,399,700 Citi ELW 1579 Call warrants & 209,777 shares of Hynix Semiconductor.

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 06 Jul 11, CGMK holds 3,395,000 Citi ELW 1264 Call warrants & 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 Hyundai Motor. As at 06 Jul 11, CGMK holds 3,219,990 Citi ELW 0C66, 3,399,880 Citi ELW 1093, 3,599,420 Citi ELW 1168, 3,399,990 Citi ELW 1169, 3,399,800 Citi ELW 1274, 3,599,900 Citi ELW 1275, 3,100,950 Citi ELW 1308, 3,208,680 Citi ELW 1309, 3,403,390 Citi ELW 1416, 3,199,330 Citi ELW 1417, 3,400,000 Citi ELW 1470, 3,599,990 Citi ELW 1471, 3,399,990 Citi ELW 1544 Call warrants & 9,200 shares of Hyundai Motor.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is POSCO. As at 06 Jul 11, CGMK holds 3,061,810 Citi ELW 1094, 3,399,290 Citi ELW 1276, 3,379,500 Citi ELW 1310, 3,597,600 Citi ELW 1311, 3,083,020 Citi ELW 1383, 3,020,850 Citi ELW 1418, 3,399,980 Citi ELW 1472, 3,399,990 Citi ELW 1488, 3,399,980 Citi ELW 1520, 3,599,990 Citi ELW 1521, 3,374,970 Citi ELW 1545, 2,940,780 Citi ELW 1170 Call warrants & 2,009 shares of POSCO.

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 06 Jul 11, CGMK holds 3,259,090 Citi ELW 1041, 3,347,970 Citi ELW 1095, 3,085,600 Citi ELW 1096, 3,380,100 Citi ELW 1171, 3,299,940 Citi ELW 1279, 3,156,750 Citi ELW 1280, 3,597,780 Citi ELW 1282, 3,328,200 Citi ELW 1384, 3,390,000 Citi ELW 1419, 3,397,000 Citi ELW 1489, 3,313,640 Citi ELW 1522, 1,281,480 Citi ELW 1278 Call warrants & 6,817 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 Mobis. As at 06 Jul 11, CGMK holds 3,399,490 Citi ELW 1105, 3,400,000 Citi ELW 1184, 3,398,000 Citi ELW 1260, 3,315,260 Citi ELW 1324, 3,399,470 Citi ELW 1393, 3,379,920 Citi ELW 1422, 3,348,480 Citi ELW 1493 Call warrants & 1,687 shares of Hyundai Mobis.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is NHN. As at 06 Jul 11, CGMK holds 3,323,340 Citi ELW 1199, 3,595,700 Citi ELW 1200 Call warrants & 500 shares of NHN.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is LG Chem. As at 06 Jul 11, CGMK holds 3,387,690 Citi ELW 1123, 3,399,600 Citi ELW 1211, 3,596,500 Citi ELW 1212, 3,398,840 Citi ELW 1291, 3,384,850 Citi ELW 1341, 3,288,170 Citi ELW 1405, 3,585,000 Citi ELW 1425, 3,399,990 Citi ELW 1426, 3,400,000 Citi ELW 1497 Call warrants & 900 shares of LG Chem.

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 06 Jul 11, CGMK holds 3,278,440 Citi ELW 1293, 3,230,140 Citi ELW 1406, 3,396,800 Citi ELW 1550, 3,400,000 Citi ELW 1587 Call warrants & 17,145 shares of Shinhan Finance.

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

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Johann Steyn, Analyst, holds a long position in the securities of Anglo American PLC.

Adrian Cattley, Strategist, holds a long position in the securities of Prudential Plc.

Craig Williams, Analyst, holds a long position in the securities of Australia and New Zealand Banking Group Ltd.

Michael Geraghty, Analyst, holds a long position in the securities of Bristol-Myers Squibb, UBS.

Peter Atherton, Analyst, holds a long position in the securities of National Grid PLC.

Chris Montagu, Strategist, holds a long position in the securities of Lend Lease Corporation Limited.

Leigh Goodwin, Analyst, holds a long position in the securities of BP, Royal Dutch Shell, GlaxoSmithKline PLC, Barclays PLC, Banco Santander, ARM Holdings PLC.

Leo Kulp, CFA, Analyst, holds a long position in the securities of Wal-Mart Stores Inc, The Coca-Cola Company, Morgan Stanley.

Tobias M Levkovich, Strategist, holds a long position in the securities of Travelers Companies, Inc.

Mike Pinkney, CFA, Analyst, holds a long position in the securities of Abertis.

Rhys D Summerton, Analyst, holds a long position in the securities of Vivendi, Sasol Ltd, Standard Bank Group, FirstRand Limited.

Tony Brennan, Strategist, holds a long position in the securities of Deutsche Bank.

Dominik Frauendienst, Analyst, holds a long position in the securities of Infineon Technologies.

A member of the household of Keith Horowitz, CFA, Analyst, holds a long position in the securities of Bank of New York Mellon Corp, JP Morgan Chase & Co.

A member of the household of Tobias M Levkovich, Strategist, holds a long position in the securities of CBS Corp, Walt Disney Co, Intel Corp, Microsoft Corp., Travelers Companies, Inc.

A member of the household of Chris Montagu, Strategist, holds a long position in the securities of Lend Lease Corporation Limited.

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

Mikhail Seleznev, CFA, Analyst, received compensation from Deutsche Bank in the past 12 months.

Tony Brennan, Strategist, received compensation from Deutsche Bank in the past 12 months.

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Novartis AG, Novatek OAO, Newell Rubbermaid Inc, News Corp, Omnicom, Oracle Corporation, Occidental Petroleum Corp, Petróleo Brasileiro - Petrobras, PG&E Corp, Priceline.Com Inc, Public Service Enterprise Group Inc, PepsiCo, Pfizer, Procter & Gamble Co, Philips Electronics NV, PKO BP, Prologis Inc, Philip Morris International, PNC Financial Services Group Inc, PPG Industries Inc, PPL Corp, Prudential Financial Inc, Prudential Plc, Public Storage Inc, Pearson PLC, Praxair Inc, PZU, QBE Insurance Group Ltd, Qualcomm Inc, Royal Dutch Shell, Reliance Industries, Regions Financial Corp, Rio Tinto Ltd, Rio Tinto PLC, Roche Holding AG, Rosneft, RR Donnelley And Sons Co, RWE AG, Royal Bank of Canada, SABMiller, Banco Santander, SAP AG, Sanofi SA, SBA Communications Corp, Sberbank RF, Standard Bank Group, Saint Gobain, Siemens AG, Schlumberger Ltd, Southern Company Inc, Standard Chartered PLC, SingTel, SunTrust Banks Inc, STMicroelectronics, State Street Corp, Stryker Corp, AT&T Inc, Tatneft, Tata Consultancy Services, Toronto Dominion Bank, Telefonica SA, TE Connectivity Ltd., Teva Pharmaceutical Industries Ltd., Target Corp, Total, Thomson Reuters Corp, Travelers Companies, Inc, Tesco, Time Warner Cable Inc, Time Warner Inc, Texas Instruments Inc, UBS, UnitedHealth, Union Pacific Corp., UOB, United Parcel Service Inc., US Bancorp, United Technologies Corporation, Vale, Viacom Inc, Vornado Realty Trust, Verizon Communications Inc, Walmex, Westpac Banking Corp, Westfield Group, Wells Fargo & Co, Whirlpool Corp, Windstream Communications, WellPoint, Waste Management Inc, Wal-Mart Stores Inc, Woolworths Ltd, Woodside Petroleum Ltd, Weyerhaeuser Co, Exxon Mobil Corp, Xstrata PLC, YUM! Brands Inc., Zurich Financial Services AG.

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Illinois Tool Works Inc., Inditex, Johnson Controls Inc, Johnson & Johnson Inc, Juniper Networks, Inc., JP Morgan Chase & Co, Kellogg Co, Keycorp, Kraft Foods Inc, KGHM Polska Miedz SA, Kimberly-Clark, Kuehne & Nagel International, The Coca-Cola Company, Kroger Co, Kohl's Corp, Land Securities, Lukoil, Lend Lease Corporation Limited, Eli Lilly, Southwest Airlines Co., LVMH, Las Vegas Sands, Macys Inc, MasterCard Inc., AP Moller Maersk A/S, Marriott International, Mattel Inc, Mobile Telesystems OJSC, McDonald's Corp, McKesson Corp, Medtronic Inc, Metro AG, MetLife Inc, Manulife Financial Corp, Medco Health Solutions Inc, Michelin, Marks and Spencer Group PLC, Marsh & McLennan Companies Inc, 3M Company, Altria Group Inc, Mosaic Co, Macquarie Group Limited, Merck, Marathon Oil Corp, Marvell Technology Group Ltd., Morrison (Wm), Morgan Stanley, Microsoft Corp., M&T Bank Corp, MTN Group Limited, Munich Re, National Australia Bank Ltd, Newcrest Mining Ltd, NextEra Energy Inc, Newmont Mining, Nestle, National Grid PLC, NII Holdings Inc, Nike Inc, Annaly Capital Management, Nokia Oyj, National Oilwell Varco Inc, Novartis AG, Novo Nordisk A/S, Norfolk Southern Corp., NetApp, Inc., Novatek OAO, Newell Rubbermaid Inc, News Corp, Next Group PLC, OGX, Omnicom, Oracle Corporation, L'Oréal Group, Occidental Petroleum Corp, Pitney Bowes Inc, Petróleo Brasileiro - Petrobras, PG&E Corp, Priceline.Com Inc, PDG Realty, SA, Public Service Enterprise Group Inc, PepsiCo, Pernod-Ricard, Pfizer, Procter & Gamble Co, Philips Electronics NV, PKO BP, Prologis Inc, Philip Morris International, PNC Financial Services Group Inc, Potash Corp of Saskatchewan Inc, PPL Corp, PPR, Prudential Financial Inc, Prudential Plc, Public Storage Inc, Pearson PLC, PZU, Qualcomm Inc, Randstad, Reckitt Benckiser, Royal Dutch Shell, Reed Elsevier PLC, Reliance Industries, Regions Financial Corp, Rio Tinto Ltd, Rio Tinto PLC, Polo Ralph Lauren Corp, Roche Holding AG, Rosneft, RR Donnelley And Sons Co, Republic Services Inc, RWE AG, Royal Bank of Canada, Sprint Nextel, SABMiller, Banco Santander, SAP AG, Sanofi SA, SBA Communications Corp, Sberbank RF, Standard Bank Group, Starbucks Corp, Schneider Electric SA, Sage Group PLC, Vinci, Saint Gobain, SGS, Sonic Healthcare Ltd, Siemens AG, Schlumberger Ltd, Southern Company Inc, Sasol Ltd, Sonova Holdings AG, Simon Property Group Inc, Stericycle Inc, Scottish & Southern Energy PLC, Standard Chartered PLC, SingTel, SunTrust Banks Inc, STMicroelectronics, State Street Corp, Suncor Energy, Safeway Inc, Stryker Corp, Synthes Inc, AT&T Inc, Tatneft, Transurban, Tata Consultancy Services, Toronto Dominion Bank, Telefonica SA, TE Connectivity Ltd., Teva Pharmaceutical Industries Ltd., Target Corp, Tim Hortons Inc, Total, Thomson Reuters Corp, Travelers Companies, Inc, TRW Automotive Holdings Corp, Tesco, Grupo Televisa, Time Warner Cable Inc, Time Warner Inc, UBS, Swatch Group AG, Unilever PLC, Unibail RodamCo Se, Unilever NV, UnitedHealth, Union Pacific Corp., UOB, United Parcel Service Inc., US Bancorp, United Technologies Corporation, Visa Inc., Vale, VF Corp, Viacom Inc, Vivendi, Vornado Realty Trust, Vodafone Group PLC, Verizon Communications Inc, Walgreen Co, Walmex, Westpac Banking Corp, Westfield Group, Wesfarmers Ltd, Wells Fargo & Co, Whirlpool Corp, Windstream Communications, WellPoint, Waste Management Inc, Wal-Mart Stores Inc, Woolworths Ltd, Woodside Petroleum Ltd, WPP Group PLC, Weyerhaeuser Co, Xilinx Inc, Exxon Mobil Corp, Xstrata PLC, YUM! Brands Inc., Zurich Financial Services AG in the past 12 months.

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Petrobras, PG&E Corp, Priceline.Com Inc, Public Service Enterprise Group Inc, Pfizer, Procter & Gamble Co, Philips Electronics NV, PKO BP, Prologis Inc, Philip Morris International, PNC Financial Services Group Inc, Potash Corp of Saskatchewan Inc, PPL Corp, Prudential Plc, Public Storage Inc, Pearson PLC, PZU, QBE Insurance Group Ltd, Qualcomm Inc, Royal Dutch Shell, Reliance Industries, Regions Financial Corp, Rio Tinto Ltd, Rio Tinto PLC, Roche Holding AG, Rosneft, RR Donnelley And Sons Co, RWE AG, Royal Bank of Canada, SABMiller, Banco Santander, SAP AG, Sanofi SA, Sberbank RF, Standard Bank Group, Saint Gobain, Siemens AG, Schlumberger Ltd, Southern Company Inc, Standard Chartered PLC, SingTel, SunTrust Banks Inc, STMicroelectronics, State Street Corp, Stryker Corp, Tatneft, Tata Consultancy Services, Toronto Dominion Bank, Telefonica

SA, Teva Pharmaceutical Industries Ltd., Target Corp, Total, Thomson Reuters Corp, Travelers Companies, Inc, Tesco, Time Warner Cable Inc, Time Warner Inc, Texas Instruments Inc, UBS, UnitedHealth, Union Pacific Corp., UOB, United Parcel Service Inc., US Bancorp, United Technologies Corporation, Vale, Viacom Inc, Vivendi, Vornado Realty Trust, Walmex, Westpac Banking Corp, Westfield Group, Wells Fargo & Co, Whirlpool Corp, WellPoint, Waste Management Inc, Wal-Mart Stores Inc, Woolworths Ltd, Woodside Petroleum Ltd, WPP Group PLC, Weyerhaeuser Co, Exxon Mobil Corp, Xstrata PLC, YUM! Brands Inc., Zurich Financial Services AG.

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Petrobras, PG&E Corp, Priceline.Com Inc, Public Service Enterprise Group Inc, PepsiCo, Pernod-Ricard, Pfizer, Procter & Gamble Co, Philips Electronics NV, PKO BP, Prologis Inc, Philip Morris International, PNC Financial Services Group Inc, Potash Corp of Saskatchewan Inc, PPL Corp, PPR, Prudential Financial Inc, Prudential Plc, PZU, Qualcomm Inc, Randstad, Reckitt Benckiser, Royal Dutch Shell, Reed Elsevier PLC, Reliance Industries, Regions Financial Corp, Rio Tinto Ltd, Rio Tinto PLC, Polo Ralph Lauren Corp, Roche Holding AG, Rosneft, RR Donnelley And Sons Co, Republic Services Inc, RWE AG, Royal Bank of Canada, Sprint Nextel, SABMiller, Banco Santander, SAP AG, Sanofi SA, SBA Communications Corp, Sberbank RF, Standard Bank Group, Starbucks Corp, Schneider Electric SA, Sage Group PLC, Vinci, Saint Gobain, SGS, Sonic Healthcare Ltd, Siemens AG, Schlumberger Ltd, Smith & Nephew PLC, Southern Company Inc, Sasol Ltd, Simon Property Group Inc, Stericycle Inc, Scottish & Southern Energy PLC, Standard Chartered PLC, SingTel, SunTrust Banks Inc, STMicroelectronics, State Street Corp, Suncor Energy, Safeway Inc, Stryker Corp, Synthes Inc, AT&T Inc, Tatneft, Transurban, Tata Consultancy Services, Toronto Dominion Bank, Telefonica SA, TE Connectivity Ltd., Teva Pharmaceutical Industries Ltd., Target Corp, The TJX Companies, Inc., Total, Thomson Reuters Corp, Travelers Companies, Inc, TRW Automotive Holdings Corp, Tesco, Grupo Televisa, Time Warner Cable Inc, Time Warner Inc, UBS, Swatch Group AG, Unilever PLC, Unibail RodamCo Se, Unilever NV, UnitedHealth, Union Pacific Corp., UOB, United Parcel Service Inc., US Bancorp, United Technologies Corporation, Visa Inc., Vale, VF Corp, Viacom Inc, Vivendi, Vornado Realty Trust, Vodafone Group PLC, Verizon Communications Inc, Walgreen Co, Walmex, Westpac Banking Corp, Westfield Group, Wesfarmers Ltd, Wells Fargo & Co, Woolworths Holdings Limited, Whirlpool Corp, Windstream Communications, WellPoint, Waste Management Inc, Wal-Mart Stores Inc, Woolworths Ltd, Woodside Petroleum Ltd, WPP Group PLC, Weyerhaeuser Co, Xilinx Inc, Exxon Mobil Corp, Xstrata PLC, YUM! 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