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## **Citi's Online Academy Investment Strategies**





# The Economic & Market Outlook

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## Outlook Highlights

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See the Disclosure Appendix for the Analyst  
Certification and Other Disclosures

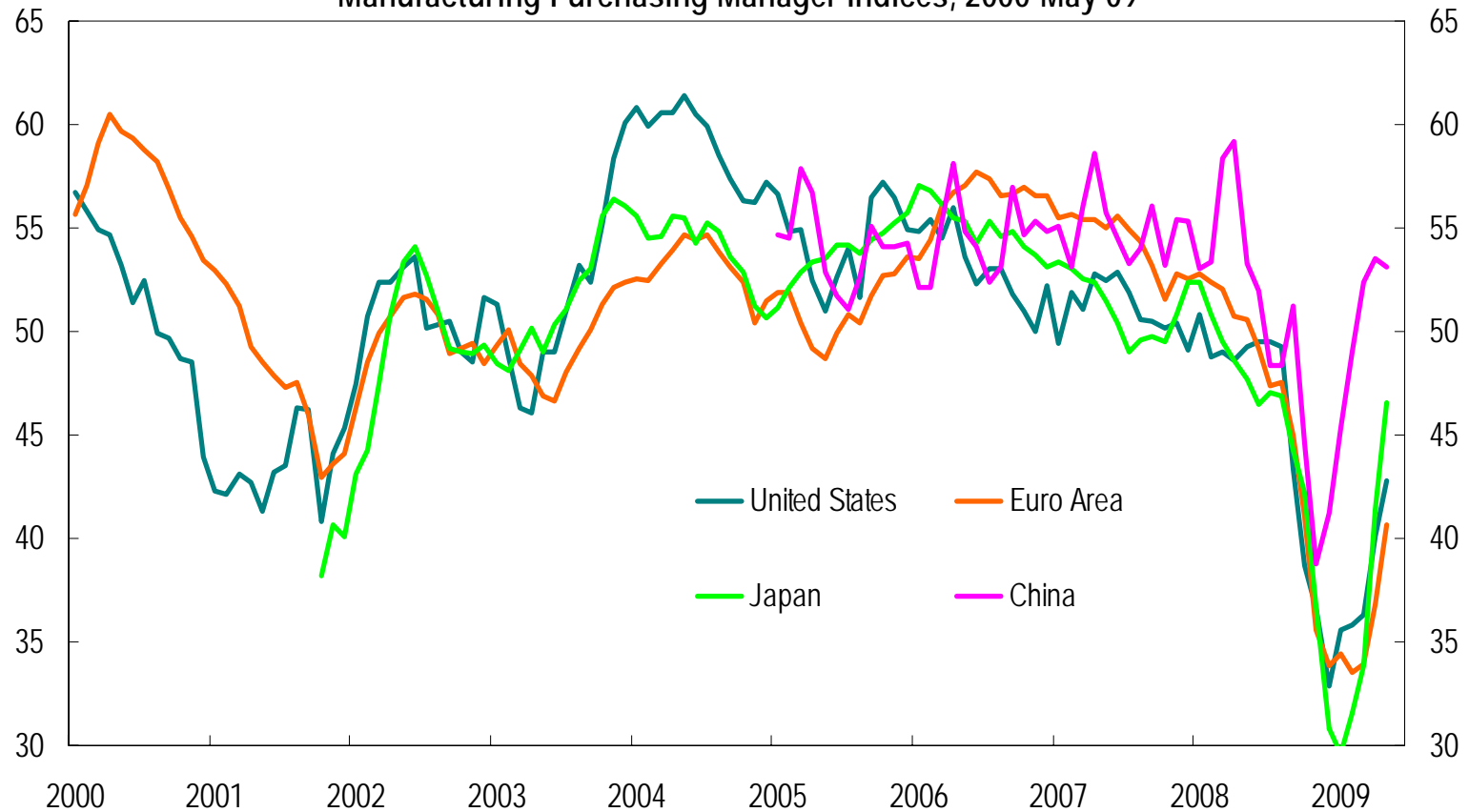
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# Synchronized Global Downturn is Losing Intensity

Global

United States, United Kingdom, Euro Area, Japan and China:  
Manufacturing Purchasing Manager Indices, 2000-May 09



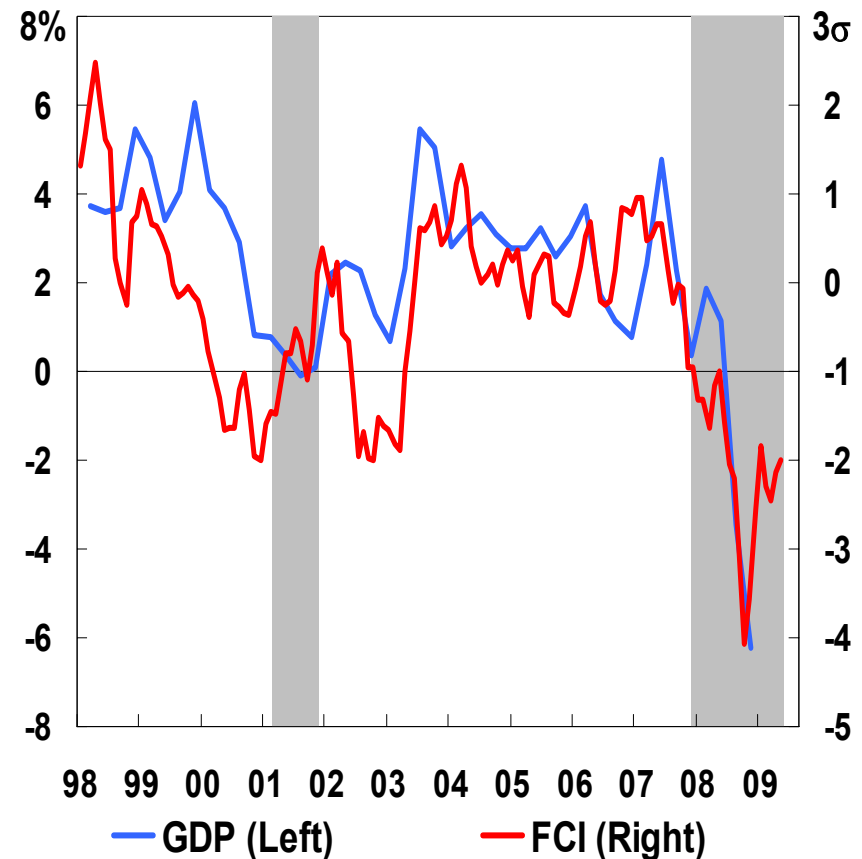
Sources: Haver Analytics.

# Policy Efforts Have Begun To Lift Financial Conditions

## United States

- While recession endures, policy efforts are beginning to win control over the outlook. Credit conditions are healing and bank stress tests results have opened the door to new capital raising efforts from private sources, a key prerequisite for economic recovery.
- A sluggish consumer highlights the updated forecast for a slow upturn over the next several quarters. Wealth and income worries are at historic extremes consistent with the view that spending may lag income gains for some time.
- The fading financial crisis suggests that deflation risk is receding somewhat but the weak cyclical setting and the challenges to achieving more effective policy accommodation imply that price pressures are likely to remain well contained.

*Real GDP (Two-Quarter Annualized Percent Change) and Citi Financial Conditions Index (Standard Deviations), 1998-May 09*



Note: Shaded regions denote recessions.

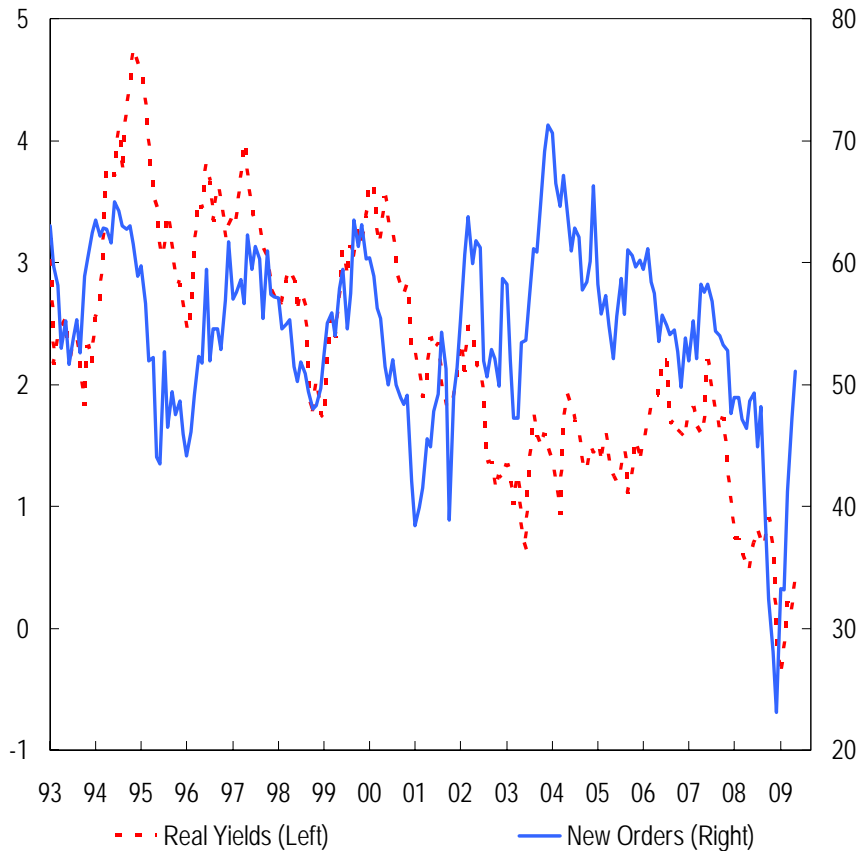
Sources: Bureau of Economic Analysis and Citi Investment Research and Analysis.



# Benchmark Yields Are Normalizing

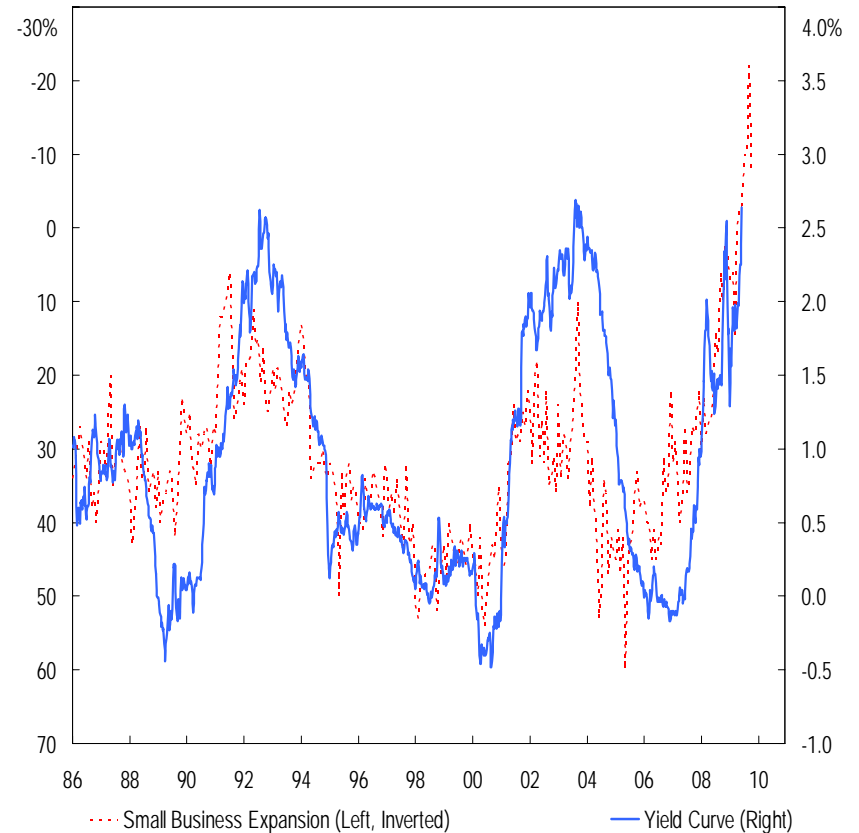
United States

*Ten-Year Treasury Yield Less Inflation Expectations and ISM Manufacturing new Orders, 1993-May 09*



Source: Federal Reserve Board, University of Michigan and Institute for Supply Management.

*Small Business Expansion Plans (Lagged Six-Months) vs. 10-Year/2-Year Yield Curve, 1986-29 May 09*



Note: Small business expansion combines the percent of survey respondents that think this is a good time to expand with the percent that plan to invest or hire.

Source: Federal Reserve Board, University of Michigan and Institute for Supply Management.



## End-to-End Approach

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# Executive Summary

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Citi's approach illustrates the client benefits of an integrated infrastructure.

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- Optimize return on cash assets with a holistic end-to-end approach
- Streamline processes and structures to make liquidity fungible across your enterprise
- Integrate cash pools otherwise trapped and fragmented across the world
- Use an integrated structure to reduce cash volatility and the need for cash buffers
- Create opportunities for centralized control, yield enhancement, and direct impact to your financials

# End-to-End View

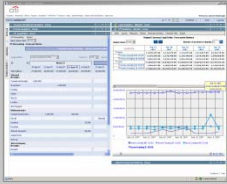

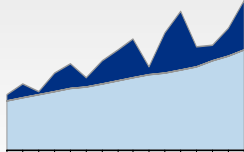
Optimizing return on cash assets requires a holistic end-to-end approach.

	Operating Cash Management	Liquidity Infrastructure	Investment Practices
<b>Objective</b>	<ul style="list-style-type: none"> <li>Accelerate Cash Conversion Cycle</li> <li>Enhance control of global cash</li> </ul>	<ul style="list-style-type: none"> <li>Enhance visibility over global cash</li> <li>Apply liquidity as fungible resource across enterprise</li> <li>Minimize excess cash buffers</li> <li>Extract stable cash to improve yield &amp; reduce funding costs</li> </ul>	<ul style="list-style-type: none"> <li>Optimize yield on excess cash, within capital preservation and liquidity objectives</li> <li>Tightly manage risks</li> </ul>
<b>Approaches</b>	<ul style="list-style-type: none"> <li>Centralize processes to coordinate payment cycles and account funding</li> <li>Accelerate receivables collection and cash application</li> <li>Minimize cash leakage &amp; system float</li> </ul>	<ul style="list-style-type: none"> <li>Streamline account structures</li> <li>Mobilize global cash—global target balancing</li> <li>Establish global pooling structures—single and multi-currency pooling</li> <li>Use real-time analytics to improve cash forecasting accuracy</li> <li>Systematize streaming of cash between affiliates and money center</li> </ul>	<ul style="list-style-type: none"> <li>Focus on preservation of capital</li> <li>Centralize positions and processes to optimize yields within risk appetite</li> <li>Centralize oversight over risk management and policy compliance</li> </ul>
<b>Trends</b>	<ul style="list-style-type: none"> <li>Extract working capital through                             <ul style="list-style-type: none"> <li>Process centralization, internally and with banks</li> <li>Standardized bank linkages (e.g., host-based, SWIFT)</li> <li>Supply chain solutions (distribution and supplier financing)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Use multi-currency pools</li> <li>Decrease local cash buffers</li> <li>Consolidate positions into global treasury center for placement</li> <li>Use analytics to improve cash forecasting (distinguish core and portfolio cash)</li> </ul>	<ul style="list-style-type: none"> <li>Centralize execution and oversight</li> <li>Use online investment portals/platforms—proprietary and 3<sup>rd</sup> party</li> <li>Use analytics for transparency over investment holdings</li> <li>Segment LT &amp; ST portfolios</li> <li>New applications in ZIRP environment—e.g. “ECR” to offset fees while gaining FDIC insurance</li> </ul>



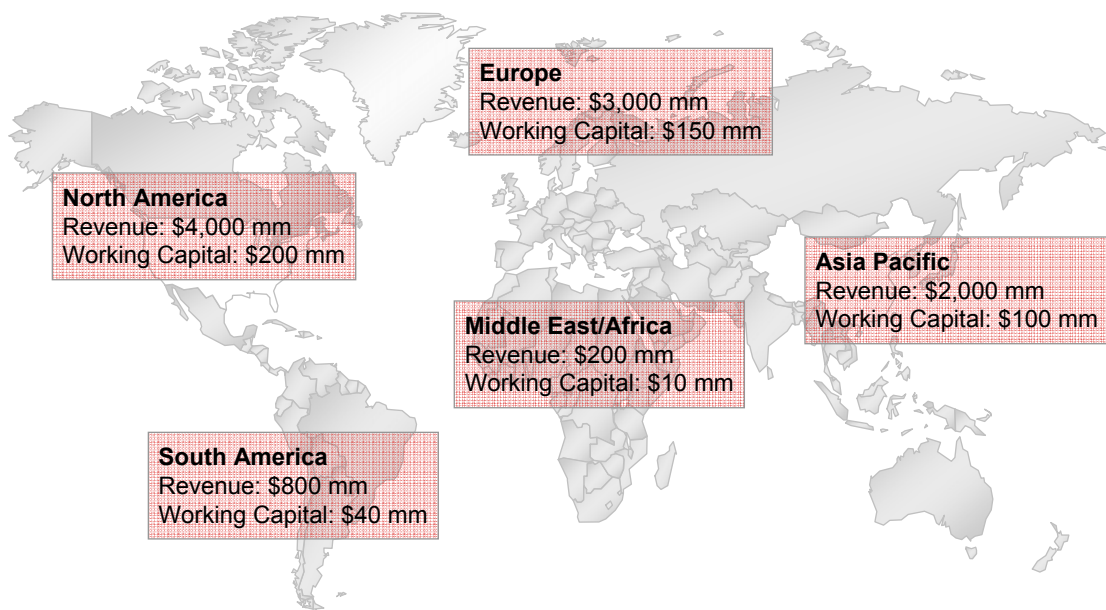
# Core Building Blocks

Goal is to make liquidity fungible across enterprise—by streamlining processes and structures to integrate pools of cash otherwise trapped in legal entities across the world

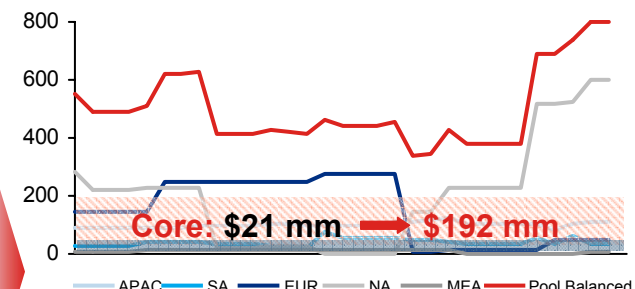
		Functionality	Benefits
<b>Visualization</b>		<ul style="list-style-type: none"> <li>▶ Real-time actionable visibility on cash positions and flows</li> </ul>	<ul style="list-style-type: none"> <li>▲ Accurate cash positioning to determine funding requirements or excess available for investment</li> <li>▲ Corporate governance &amp; risk mitigation</li> </ul>
<b>Mobilization</b>		<ul style="list-style-type: none"> <li>▶ Automated movement of cash “with the sun” and “against the sun”</li> <li>▶ Customized to regulations and tax rules—what can be centralized vs. remain local</li> </ul>	<ul style="list-style-type: none"> <li>▲ Mobilize available cash flow for benefit of the enterprise</li> <li>▲ Facilitate centralized access, control and deployment</li> <li>▲ Internal offsets</li> </ul>
<b>Optimization</b>		<ul style="list-style-type: none"> <li>▶ Automated and active cash investment options on overnight and excess cash</li> </ul>	<ul style="list-style-type: none"> <li>▲ Optimize yield on excess liquidity taking balancing safety, liquidity, and yield in line with up to date investment policies and procedures</li> </ul>

# Quantifying Value

An integrated structure, including global pooling, reduces cash volatility—our sample company reduces local working capital cash buffers by over 30% while increasing centralized “core” cash by \$171 Million.



## Pooling ► Increase Stable (Core) Cash



Variance	
Unpooled CoV	43.2%
Pooled CoV	26.5%

CoV: Coefficient of Variation = stdev/mean

**(63%) reduction in variance**

## Pooling ► Change in Cash

	Pre-Pool	Post-Pool
NA	200	108
SA	40	39
Europe	150	88
Middle East/Africa	10	10
Asia Pacific	100	84
<b>Cash</b>	<b>500</b>	<b>329</b>
<b>% Change in Cash from Current</b>		<b>(34%)</b>

Calculations use current Sales = \$10 bn and NI = \$500 mm figures for sample company and assumes they remain constant in the PF Adjusted case.

Poolable balances: N America: 100%; S America: 5%; Europe: 90%; Africa: 10%; Asia Pacific: 35%.

All figures in \$ mm unless otherwise noted.

**Δ in Cash**

## Effect on EPS & Capital Reduction

PF Adjustment to Net Income	
<b>Current Net Income</b>	500
Reduced Funding Needs	171
Funding Costs	5.00%
Tax Rate	35%
<b>Decrease in Interest Expense</b>	6
<b>Adjusted Net Income</b>	<b>506</b>
<b>EPS Accretion</b>	<b>1.1%</b>

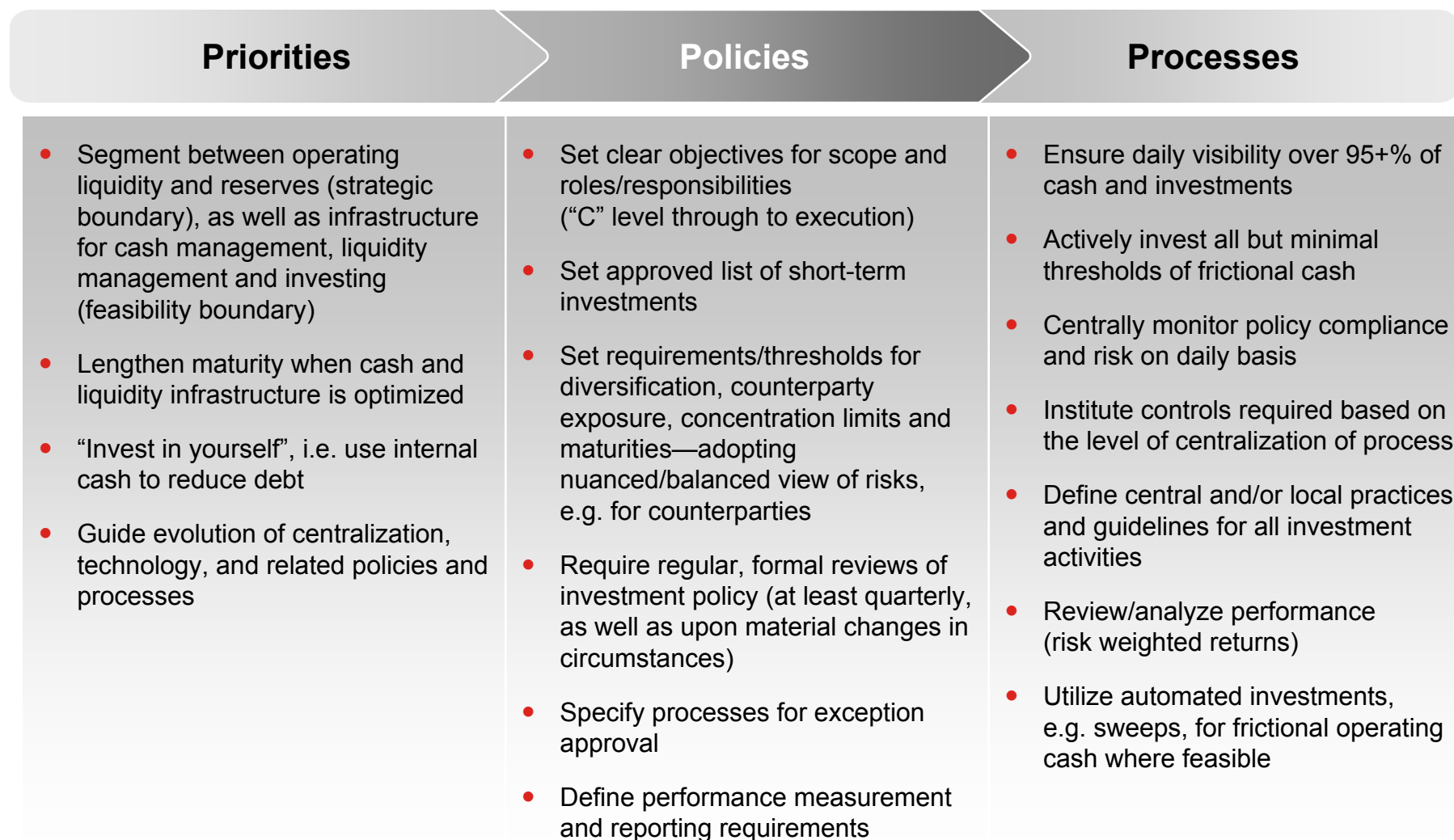
Capital Reduction	
Reduced Funding Needs	171
WACC	10.00%
<b>Annual Capital Reduction</b>	<b>17</b>

Funding Costs is based on current estimates for A2/P2 commercial paper.

# Investment Practices and Infrastructure

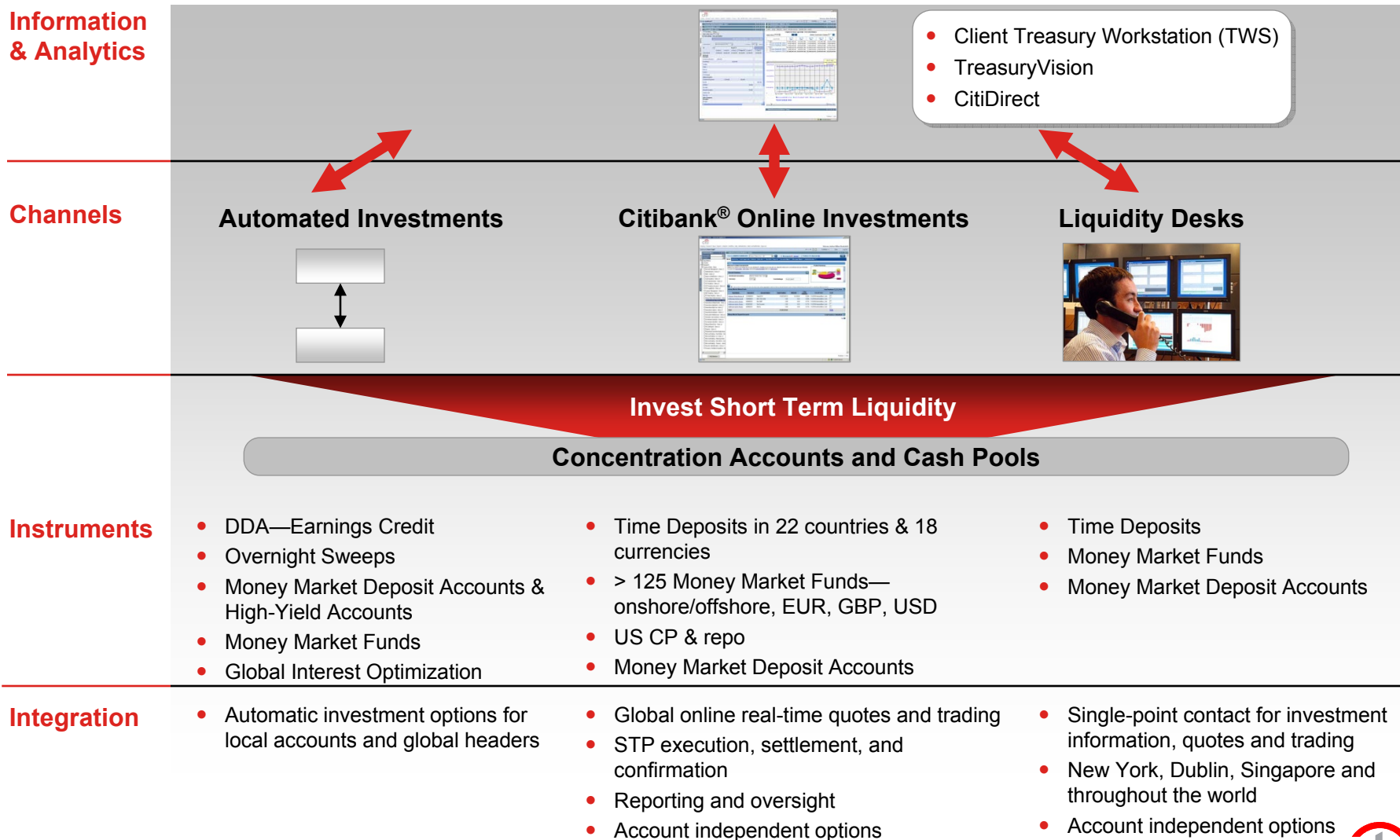
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# Best Practices



# Investment Infrastructure Considerations

Citi's approach illustrates the client benefits of an integrated infrastructure.



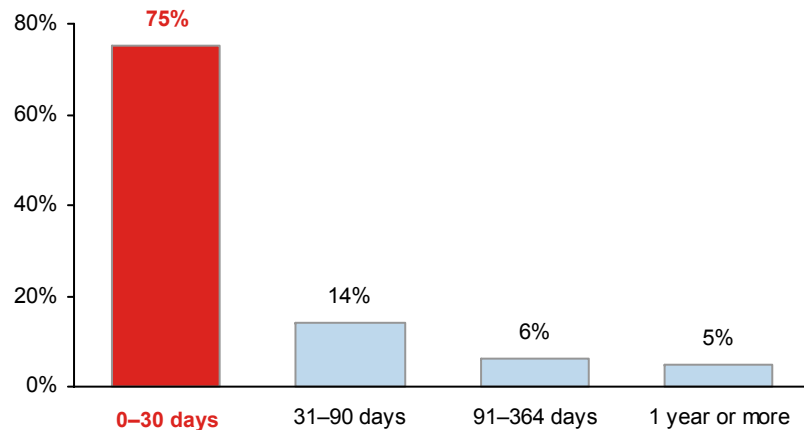
## Investment Solutions

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# Where the Market has Been Investing

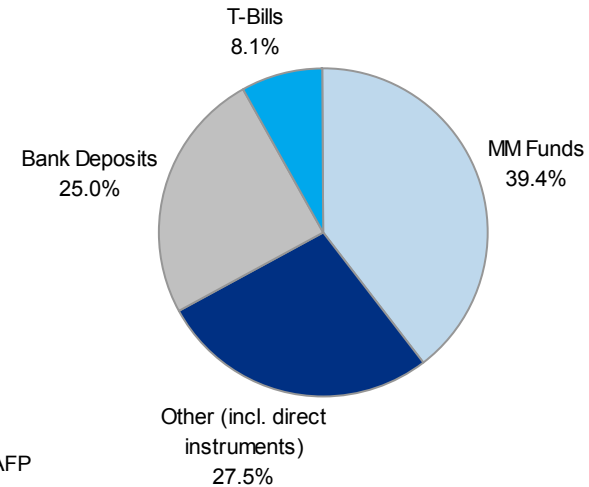
With the squeeze on credit and market turmoil, there has been a flight to quality short term investments.

### Average Investment Maturity



Source: AFP

### Average Investment Portfolio Composition



Source: AFP

#### Corporate investors have emphasized liquidity and capital preservation over yield:

- Majority of cash has an investment horizon of less than 30 days
- Increased usage of
  - High-quality and insured bank deposits
  - Money Market Funds (45% growth in corporate usage since 2000)
    - >75% of corporates invest in MMFs
  - Government & Treasury issued instruments
- Decreased usage of risk-based direct investment instruments (Asset Backed CP, traditional CP, Auction Rate Securities)

# Investment Spectrum



	BANK DEPOSITS			GUARANTEED/ INSURED BANK DEPOSITS		DIVERSIFIED INVESTMENTS		DIRECT INVESTMENTS		
Investment	Demand Amount	Time Deposits	Money Accounts	Private Sector Insured Bank Accounts	Government Guaranteed Bank Accounts	Prime/CP Money Market Funds	Government/Treasury Money Market Funds	Triparty Repurchase Agreements	Government/Treasury Bills	Commercial Paper
Risk	Bank	Bank	Bank	Bank-Insured	Bank-Sovereign	Diversified	Sovereign	Diversified	Sovereign	Issuer
Accessibility	Daily	At Maturity	Daily	Daily	Daily	Daily	Daily	At Maturity	At Maturity	At Maturity

# Automated and Account Based Investments

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Innovative spins on traditional “no touch” investment solutions: Citi has responded to market factors, changes in the regulatory environment and modifications to investment policies & procedures.

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## **Non-interest Bearing deposit with soft dollar credit to offset hard dollar bank fees**

- Balance profile: Large, operating
- Unique features: US deposits are 100% FDIC insured
- Citi Innovation: Extended the traditional practice of Earnings Credit across regions. Citi now offers the ability to offset Western European banking fees with soft dollar credits accrued on US based accounts

## **Money Market Accounts**

- Balance profile: Large, more stable
- Unique features: daily liquidity with features that reward balance stability and size
- Citi Innovation: Substantial increase in yield comparable to Prime MMFs while using standard bank deposits

## **Sweep to Money Market Funds and Time Deposits**

- Balance Profile: Large, operating
- Unique features: Increasing weighted average yield on end of day cash
- Citi Innovation: Combining intraday sweep to one or more top rated Money Market Funds combined with and end-of-day sweep to offshore Time Deposits

## **Guaranteed Deposit Accounts**

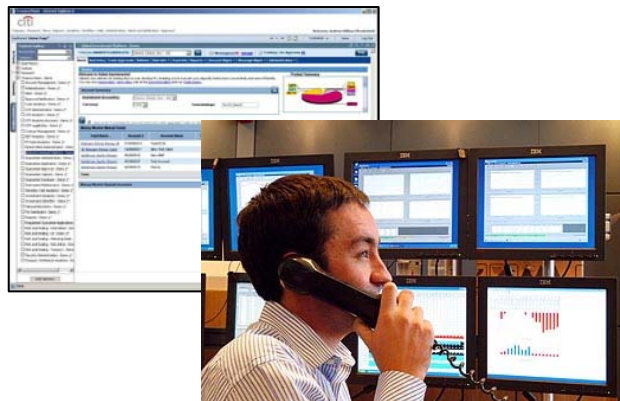
- Balance Profile: Large, operating
- Unique features: Provisions on account deposits which are backed by a sovereign or bank association deposit scheme
- Citi Innovation: complying with regulations to offer a “safe haven” for cash deposits in available locations

**Crafting solutions to satisfy your cash profile and liquidity needs**

# Time Deposits

Providing worldwide coverage and market expertise.

- **Issued by Citibank, N.A. and other branches**
  - USD, EUR, GBP, and other major currencies available
  - Tenors: overnight—5 years
  - FDIC insured in certain jurisdictions\*
- **Deposited with a bank rated A1/P1/F1+**
- **Executed online or via GTS Liquidity & Investments Desk**
  - Regional Desks in New York, Dublin or Singapore and Citi Service Desks throughout the globe.



## Competitive Rates

As of 05.22.08  
Citibank, N.A., Nassau  
TD Rates

Tenor	Rates (%)
1 wk	0.21
2 wk	0.23
3 wk	0.23
1 mo	0.24
2 mo	0.44
3 mo	0.71
6 mo	1.25
9 mo	1.42

- These rates are indicative only and subject to change given market conditions
- Time deposits booked with Citibank N.A., Nassau are subject to the counterparty risk of Citibank N.A. (A-1/P-1/F1+), the Sovereign Risk of the Commonwealth of the Bahamas has a S&P A-2 short-term sovereign credit rating and a Moody's A3 long-term rating

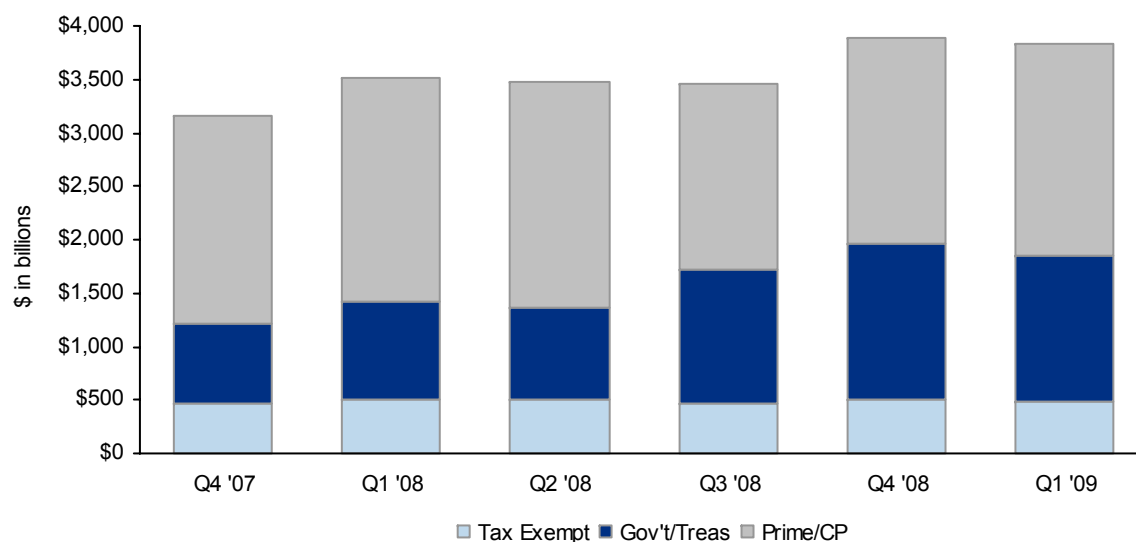
Note: The FDIC insures of each legal entity up to \$250,000 made at US and Puerto Rico branches.

**Providing a personal point of contact for your investment needs**

# Money Market Fund Assets Continue to Grow

## Money Market Fund Assets

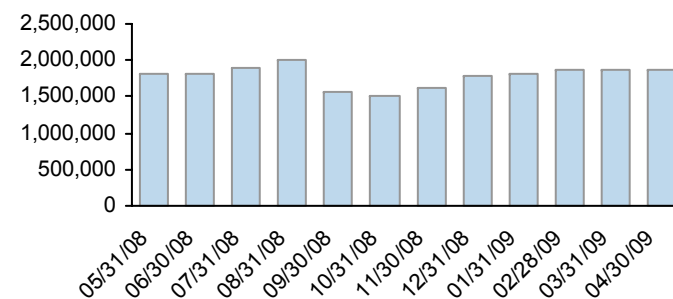
By Fund Type



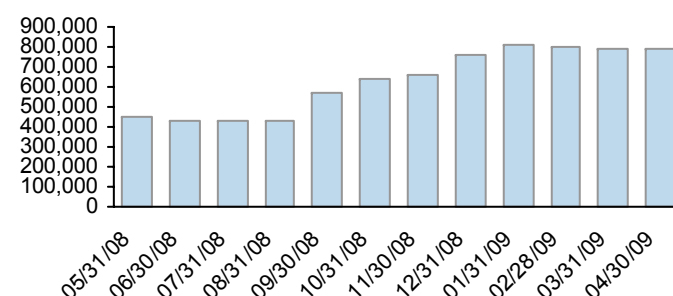
Source: ICI

- **Investors continue to utilize money market funds**
  - Total MMF assets have grown by \$674 bn since January 1, 2008, and \$374 bn since the end of Q3 2008
- **Some institutional investors have started to shift back to Prime/CP funds in search of yield, while Govt. and Treasury funds assets remain strong**
  - Inst Prime MMF assets have grown by \$189 bn and Inst Govt./Treas. MMF assets by \$144 bn since the end of Q3 2008
  - Govt./Treas. MMF assets have grown by \$634 bn and Prime MMF assets by \$33 bn since January 1, 2008

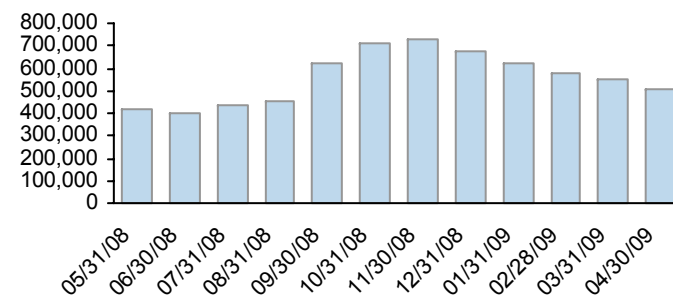
## Prime Money Fund Assets (\$ mm)



## Govt. Money Fund Assets (\$ mm)



## Treasury Money Fund Assets (\$ mm)

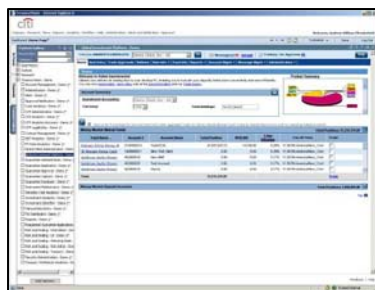


Source: Crane Data, MFI

# Money Market Funds

Expanded investment options and online features via award winning Citibank Online Investments (OLI).

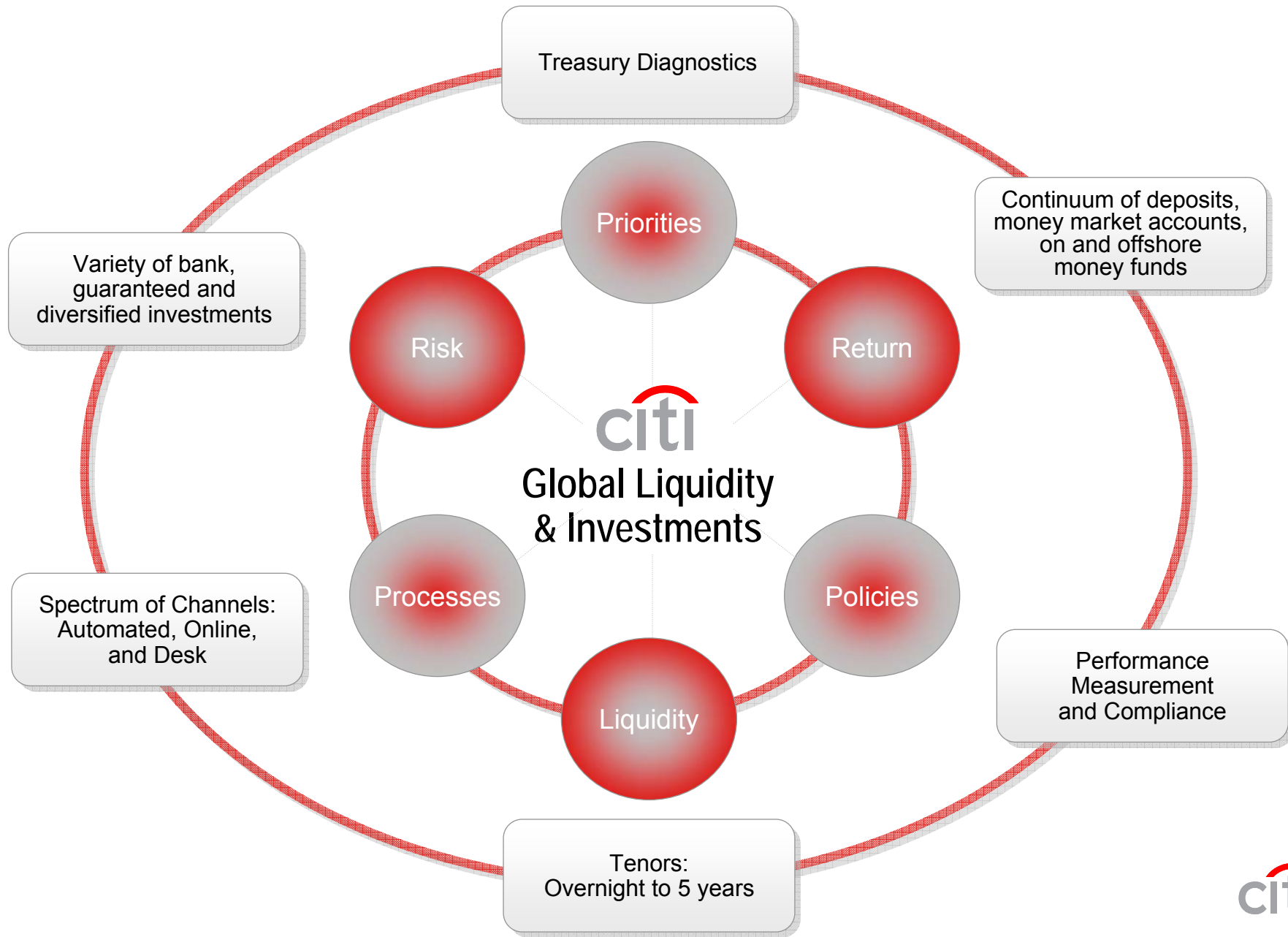
- OLI now offers 125+ funds from 14 fund providers, including USD domestic (U.S. registered) and EUR, GBP & USD offshore (non-U.S. registered) funds
  - We are committed to providing our clients with the choices they require. Note: Jurisdictional restrictions may apply
- **New Funds**, Responding to increased demand for Government and Treasury Funds:
  - Western Asset Institutional Government, AIM Global US Dollar Treasury Portfolio, Western Asset Institutional Government, Ltd., Western Asset U.S. Treasury Reserves, Ltd., Goldman Sachs Euro Govt. Liquid Reserves, JP Morgan Euro Government Liquidity Fund, Goldman Sachs Sterling Govt. Liquid Reserves, JP Morgan Sterling Gilt Liquidity Fund



- **Latest Investment Channels**
  - **Account Independence**—In addition to a direct debit/credit to your Citibank DDA account, we can now process a wire in the US from/to your non-Citi account as a third-party settlement method.
  - **Additional Channel**—our custody clients can now access OLI via CitiDirect for Securities, their favored channel for managing their custody accounts.
  - **Automated Sweep**—intra-day investment directly from your Citibank account
- **Recent OLI Features:**
  - **Future-dated Trading**—Enter trades with future value dates to schedule and match funding with investment opportunities. Most helpful to clients that operate many time zones away from the account location.
  - **CFX-OLI Integration**—OLI activity via direct, standardized Citi® File Xchange feeds to TWS (Sungard, XRT, etc.) and ERP systems as well as Treasury Analytics (Clearwater). Important feature for those running a Treasury dependent on integrated, seamless, timely and accurate data.
  - **Cash Payout**—Now offering two options for the dividend payment: Reinvestment and Cash Payout

Meeting your needs for investment options that match your policies and practices

# Providing Solutions To Meet Your Needs



Q&A

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