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Citi and Research Affiliates Launch Fundamentals-based Bond Index Series

Citi and Research Affiliates are launching a new global sovereign bond index series based on measures of size. The Citi RAFI Bond Index Series decreases exposure to aging and debt-laden economies such as Japan and the United States and increases exposure to younger, resource-rich countries such as Australia and Canada. The series extends the pioneering Research Affiliates Fundamental Index® (RAFI®) methodology to sovereign debt.

Traditional bond indices weight securities based on market capitalization, which results in investors making their biggest bets on the biggest debtors. The new series weights each country by its economic footprint. Specifically, each country's weight is calculated via an equally weighted average of four factors — GDP, energy consumption, population and rescaled land area. As a result, this methodology results in country weights that reflect each nation's ability to service its debt, which has become a growing concern as the sovereign debt crisis evolves.

The Citi RAFI series provides significantly different weights to countries, as can be seen in the table below listing the top five country weights for the respective indices:

Citi RAFI Sovereign Developed Markets Bond Index Master		Equivalent Sovereign Developed Markets Capitalization Index	
US	21.77%	Japan	32.93%
Japan	8.90%	US	27.66%
Canada	7.77%	France	6.39%
Germany	6.68%	Germany	6.37%
Australia	6.56%	UK	5.82%

The Citi RAFI Bond Index Series combines Citi's expertise and experience in developing fixed-income indices and RA's strength as a creator of innovative index strategies. RA is the global market leader of fundamentally weighted indices, with more than \$50 billion in assets linked to the firm's Fundamental Index® methodology.

“Mounting debt and deficits combined with aging demographics pose a 3-D hurricane to developed nations,” explained Rob Arnott, chairman and CEO of Research Affiliates. “Existing capitalization-weighted bond indices tend to overweight the largest debtors, without regard to whether they deliver a yield commensurate with the risk they are taking. It seems to us that weighting a bond index in proportion to underlying economic scale makes more sense than weighting in proportion to the outstanding debt. This new investable bond series will help investors find a more optimal way of investing in broadly diversified and transparent bond portfolios. We are pleased to work with Citi on developing this new series.”

The Citi RAFI Sovereign Developed Markets Bond Index would have outperformed a capitalization-weighted index over long time periods, while maintaining comparable duration

risk. Over the 10-year period ending December 31, 2011, the Citi RAFI Index would have returned 8.6% on an annualized basis, compared with an equivalent market-capitalization-weighted index return of 7.8%, based on simulated results.

“Alternative weighting methodologies are a growing part of the toolkit for fixed income investment, particularly in this challenging economic environment,” said Richard Burns, Global Head of The Yield Book & Citi Fixed Income Indices. “The Citi RAFI Bond Index Series provides access to an alternative weighting methodology, whilst also preserving all the advantages of passive investing including diversification, transparency, liquidity and limited transaction costs. Citi is pleased to be working with Research Affiliates on this index series, combining our long-standing experience in fixed income indexing with Research Affiliates’ proven expertise in fundamental weighting.”

The new series, which is available on Bloomberg, comprises both sovereign developed and emerging markets bond indices. A developed markets corporate bond index will be released in Spring. The sovereign bond indices are available for licensing as investment solutions to institutional investors and asset managers.

About Citi

Citi, the leading global financial services company, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

About Research Affiliates, LLC

Research Affiliates, a global leader in innovative investing and asset allocation strategies, operates worldwide from its base in Newport Beach, Calif. Dedicated to solving complex investment issues, the firm creates innovative strategies that respond to the current needs of the market. Leveraging its strong research focus, Research Affiliates distributes products in partnership with some of the world's leading financial institutions. These affiliations take the form of licensing agreements, sub-advisory services, and direct asset management. Approximately \$87 billion in assets are managed worldwide using investment strategies developed by Research Affiliates, as of December 31, 2011.

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