

Emerging Markets Equity Process for UNEP FI

Citigroup Asset Management Limited

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Presented by
Erda Gercek, Country Strategist
Citigroup Asset Management Ltd

Investment Philosophy and Objectives

Philosophy

- We see stock prices as a function of valuation, earnings surprise and country risk
 - Valuation succeeds as stock prices tend towards equilibrium over time
 - Surprise results in re-evaluation of consensus forecasts
 - Country risk determines discount rates
- We believe that consistent performance can be achieved by applying disciplined and repeatable investment processes, supported by in-depth proprietary research.

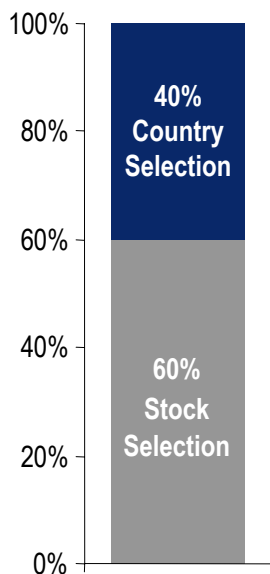
Objectives

- The investment team aims for a target excess return of 4% per annum versus the MSCI EMF Index over a market cycle, subject to a maximum tracking error target of approximately 8%

Sources of Alpha Generation

Alpha Objectives

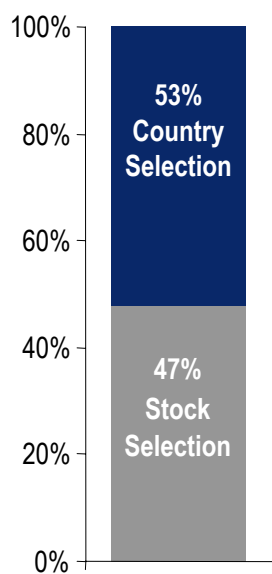
Target = 4.00% p.a.



Realised Alpha

(3-Yr as of Mar-2004)

Realised = 4.87% p.a.



Proprietary Sources of Alpha

Country Selection

Resources: 2 dedicated country strategists

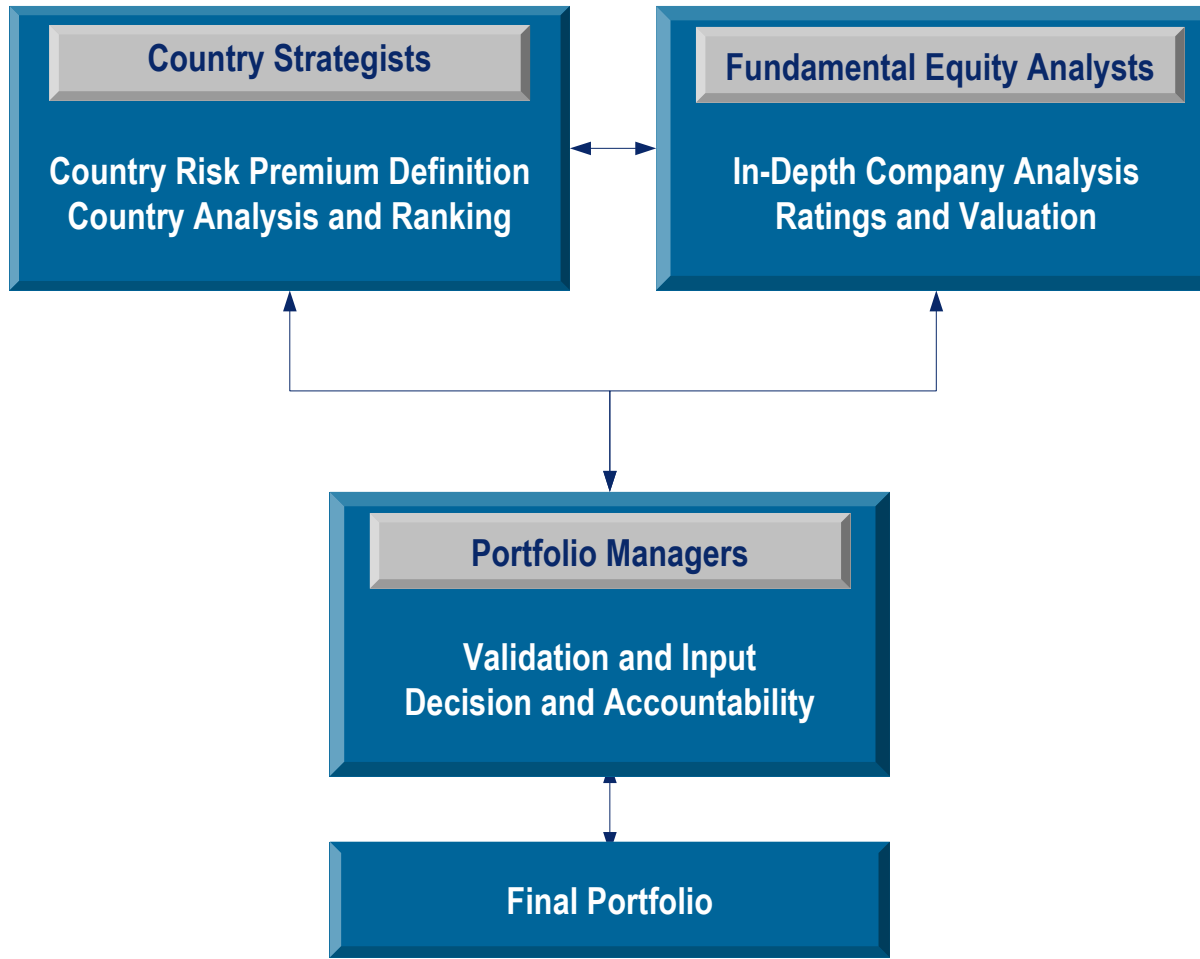
Inputs: Country Risk Premium Estimates
Short-Term Macro Signals (TD Matrix)
Top-Down Ratings (1-5)

Stock Selection

Resources: 15 dedicated EME Analysts

Inputs: In-Depth Company Research
Fundamental Fair-Value Assessment (DDM)
Near-Term Earnings Signals
Sector Based Ratings (1-5)

Disciplined Investment Process



Please see endnotes for additional information.

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Integration of Top-Down and Bottom-Up Inputs

Dividend Discount Model (DDM) Valuation Integrates
Company Cashflow Fundamentals with Respective Risk Level

Citigroup Asset Management Standard Model - Dividend Discount Model v8.2 Console

Company: TELE NORTE LESTE PART-PREF
Bloomberg Ticker: TNLP4 BZ Equity
Statement Currency: BRL **Inflation Adjustment:** Nominal
Security Currency: BRL

Market Type: EMERGING MARKET
Country: BRAZIL
Bond Type: UNITED STATES (+ INFLATION DIFFERENTIAL)
Valuation Date: 03/12/2004 **Fiscal Year 1 End:** 12/31/2004

Time Structure
Years of Explicit Forecast: 6
Years of Constant Forecast: 9
Years of Transition: 5

Discount Rate
Bond Yield (03/14/2004): 3.78%
Inflation Differential: 1.46%
Market Average ERP: 7.00%
Multi-Country Adjustment:

Calculation Mode
 Nominal (INPUT) Real

Constant Stage (Nominal)
Constant Stage EPS Growth: 6.00%
Constant Stage Payout Ratio: 55.00%
Implied Constant Stage ROE: 13.33%

BS Strength: AVERAGE
EPS Forecastability: BELOW AVERAGE
EPS Variability: AVERAGE
Stock ERP Adjustment: 0.33%
Base Discount Rate: 13.04%

DDM Results
DDM Fair Value: 49.15
Price (03/12/2004): 40.01
Return to DDM Fair Value: 22.84%
Internal Rate of Return: 14.38%
Implied Constant Growth: 2.02%

Explicit Estimates (Link Inputs)

Reset	EPS	DPS	BV	ROE
Year 0	-0.57	5.46	18.40	-2.70%
Year 1	3.08	1.54	21.65	15.39%
Year 2	2.70	3.24	21.59	12.47%
Year 3	3.74	4.49	21.52	17.37%
Year 4	4.48	5.38	21.43	20.87%
Year 5	5.25	6.29	21.33	24.54%
Year 6	5.39	6.46	21.22	25.33%
Year 7				
Year 8				
Year 9				
Year 10				

DDM Inputs

Load	EPS	DPS	BV	ROE
Year 0	-0.57	5.46	18.40	-2.70%
Year 1	3.08	1.54	21.65	14.76%
Year 2	2.70	3.24	21.59	12.33%
Year 3	3.74	4.49	21.52	17.10%
Year 4	4.48	5.38	21.43	20.48%
Year 5	5.25	6.29	21.33	24.01%
Year 6	5.39	6.46	21.22	24.76%
Year 7				
Year 8				
Year 9				
Year 10				

Calculated Automatic
IDB Inputs
Terminal Conditions
OK
Cancel
Print

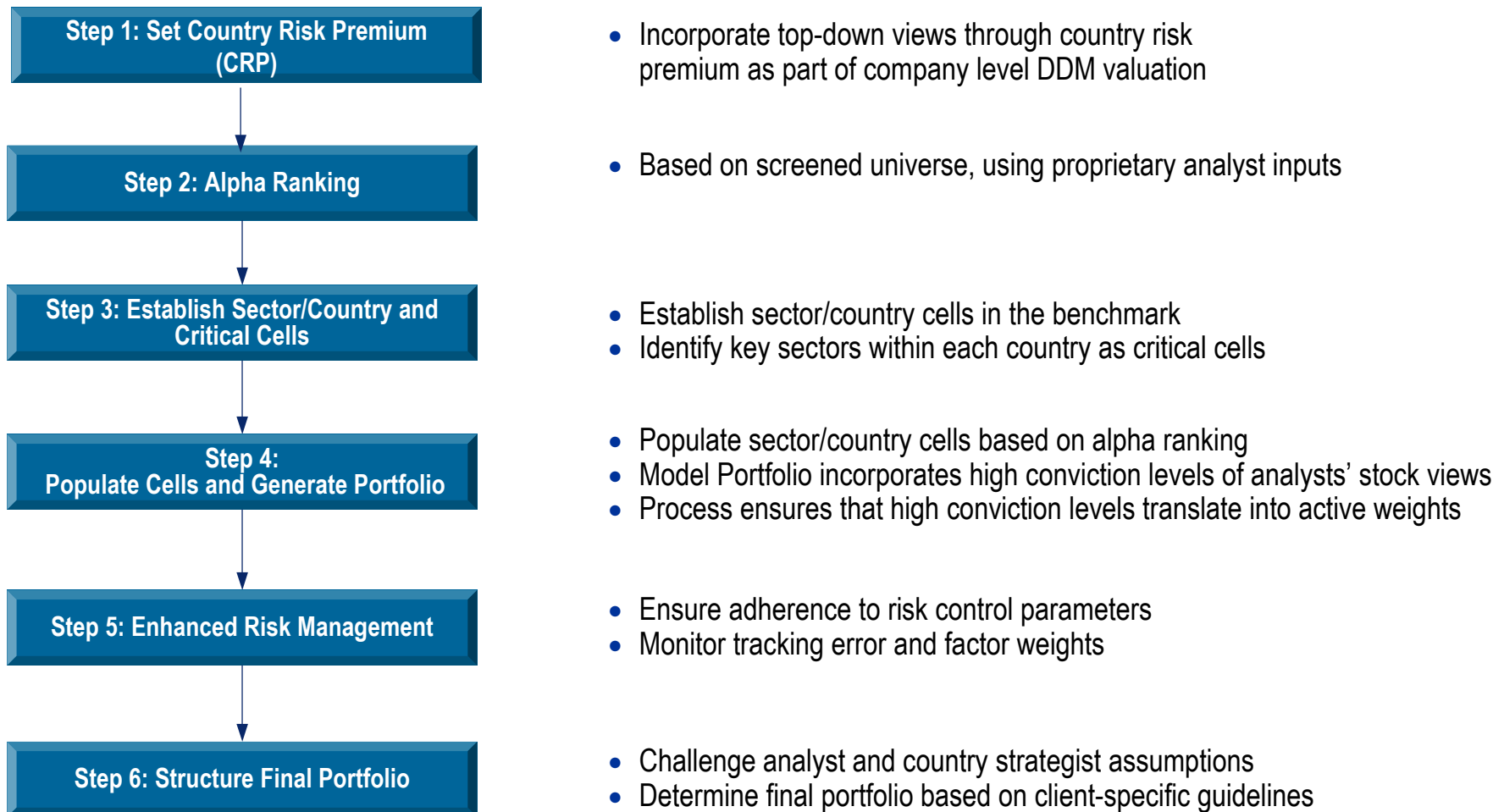
Equity Analyst Inputs
(EPS, DPS, g, ROE)

Country Strategist Inputs
(Country Risk Premium)

For illustrative purposes only. This information does not constitute and should not be construed as investment advice or recommendations with respect to the countries listed above. Please see endnotes for additional information.
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IV. Investment Process and Portfolio Construction

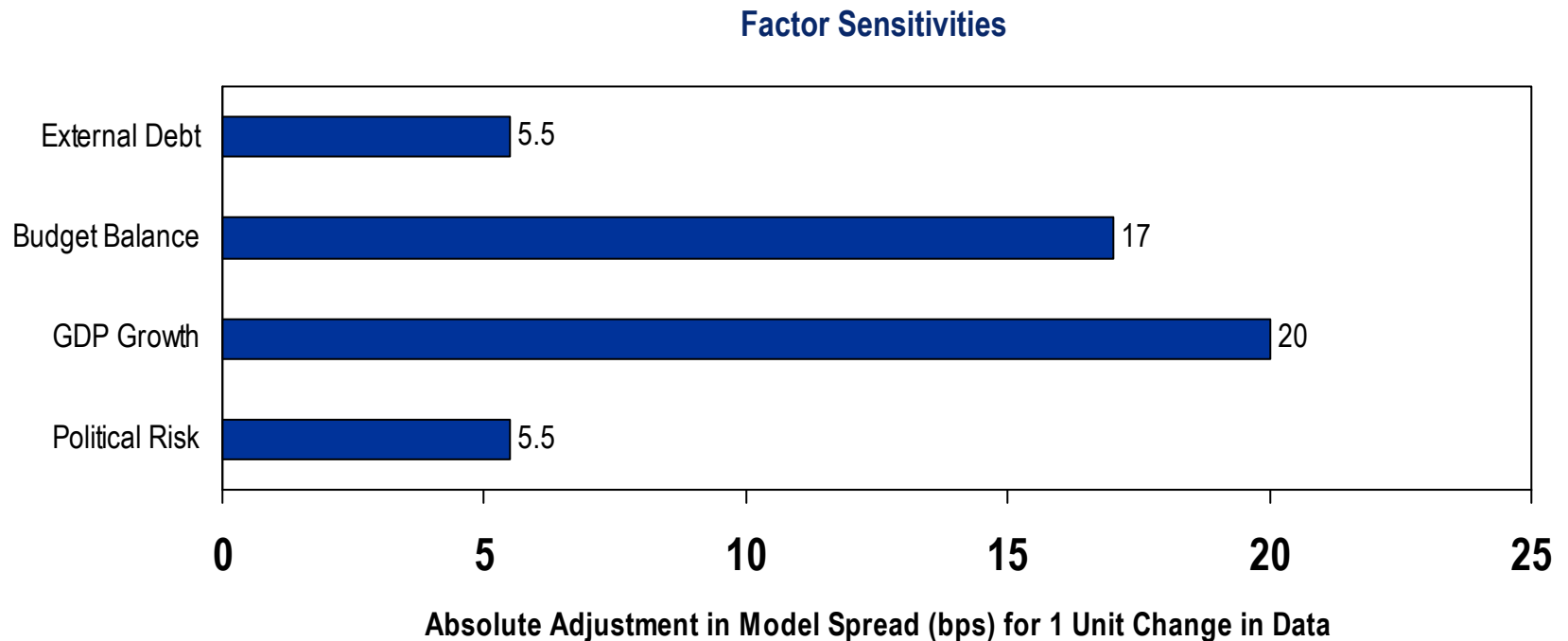
Investment Process Summary



Role 1: Define Country Risk Premium

Country Strategists Estimate Country Risk Premium

- Estimate country risk premium for individual markets based on proprietary estimates of statistically significant factors



Source: Citigroup Asset Management Research. For illustrative purposes only. Please see endnotes for additional information. The above represents a set of factors that serve as input into a model to calculate Country Risk Premium. Factor sensitivities as of Feb-2004. These factors affect the Country Risk Spread in direct proportion as shown.

Definitions of factors: External Debt: Country's External Debt as % of GDP; Budget Balance: Country's Budget Balance as % of GDP; GDP Growth: Country's % Annual GDP Growth; Political Risk: an increase in the Political Risk Index means an improvement in the political situation.

Step 1: Define Country Risk Premium

Different Risk Levels in Emerging Markets Are Systematically Recognised

- Country Risk Premium for all key emerging markets are determined and incorporated in Company Level DDM Valuation

Country	Debt / GDP	BB / GDP	GDP Growth	Political Risk	CRP
China	12	-3.0	8.0	70	500
India	18	-9.0	6.5	57	550
Indonesia	56	-0.8	4.0	49	650
Korea	32	1.4	5.0	71	450
Malaysia	46	-4.8	5.5	67	550
Philippines	70	-5.2	4.0	64	700
Taiwan	12	-3.0	5.5	79	450
Thailand	41	0.4	5.5	70	500
Czech Rep.	32	-8.1	3.8	80	500
Hungary	60	-4.4	2.5	82	500
Israel	65	-4.0	2.0	62	600
Poland	41	-5.5	4.5	78	500
Russia	37	-1.4	1.5	61	600
South Africa	20	-2.3	2.8	62	550
Turkey	50	-11.5	5.0	63	700
Argentina	90	-0.1	4.0	61	850
Brazil	47	-4.1	2.7	64	700
Chile	34	-0.5	3.9	71	500
Mexico	27	-1.9	3.2	66	550

Source: Citigroup Asset Management Research. For illustrative purposes only. Please see endnotes for additional information. The above represents a set of factors that serve as input into a model to calculate Country Risk Premium. Factor sensitivities as of Feb-2004. Definitions for factors illustrated: Debt/GDP: Debt: Country's External Debt to GDP Ratio; BB/GDP: Country's Budget Balance as % of GDP; GDP Growth: Country's % Annual GDP Growth; Political Risk: Political Risk Index. This information does not constitute and should not be construed as investment advice or recommendations with respect to the countries listed above. This is confidential and proprietary information and may not be used other than by the intended user.

Step 1: Define Country Risk Premium

Example: Country Strategists Estimate Country Risk Premium for Company Level DDM Valuation

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Year 8				
Year 9				
Year 10				

Calculated Automatic

Country Strategist Inputs
(Country Risk Premium)

Brazil in 2002: A Case in Point

Country Risk Premium Drivers

	Previous Estimates	Revised Estimates	Change in Estimates	Factor Sensitivities*	Spread Impact in bps
External Debt Level	-45.0%	-48.0%	3.0%	9	27
Budget Balance	-5.2%	-8.5%	3.3%	22	73
GDP Growth	2.0%	1.2%	0.8%	6	5
Political Risk	63	58	5	8	40
Currency Valuation**	92	77	15	2	30
Country Risk Factor Change					174

MSCI Brazil in US\$



* Factors sensitivities are dynamic in nature and may change to reflect current market conditions.

** Currency Valuation Factor dropped in Dec-03 due to decline in statistical significance. Country Risk Premium Drivers and Factors shown as of June-2002.

Source: Citigroup Asset Management Research, MSCI. For illustrative purposes only. Please see endnotes for additional information.

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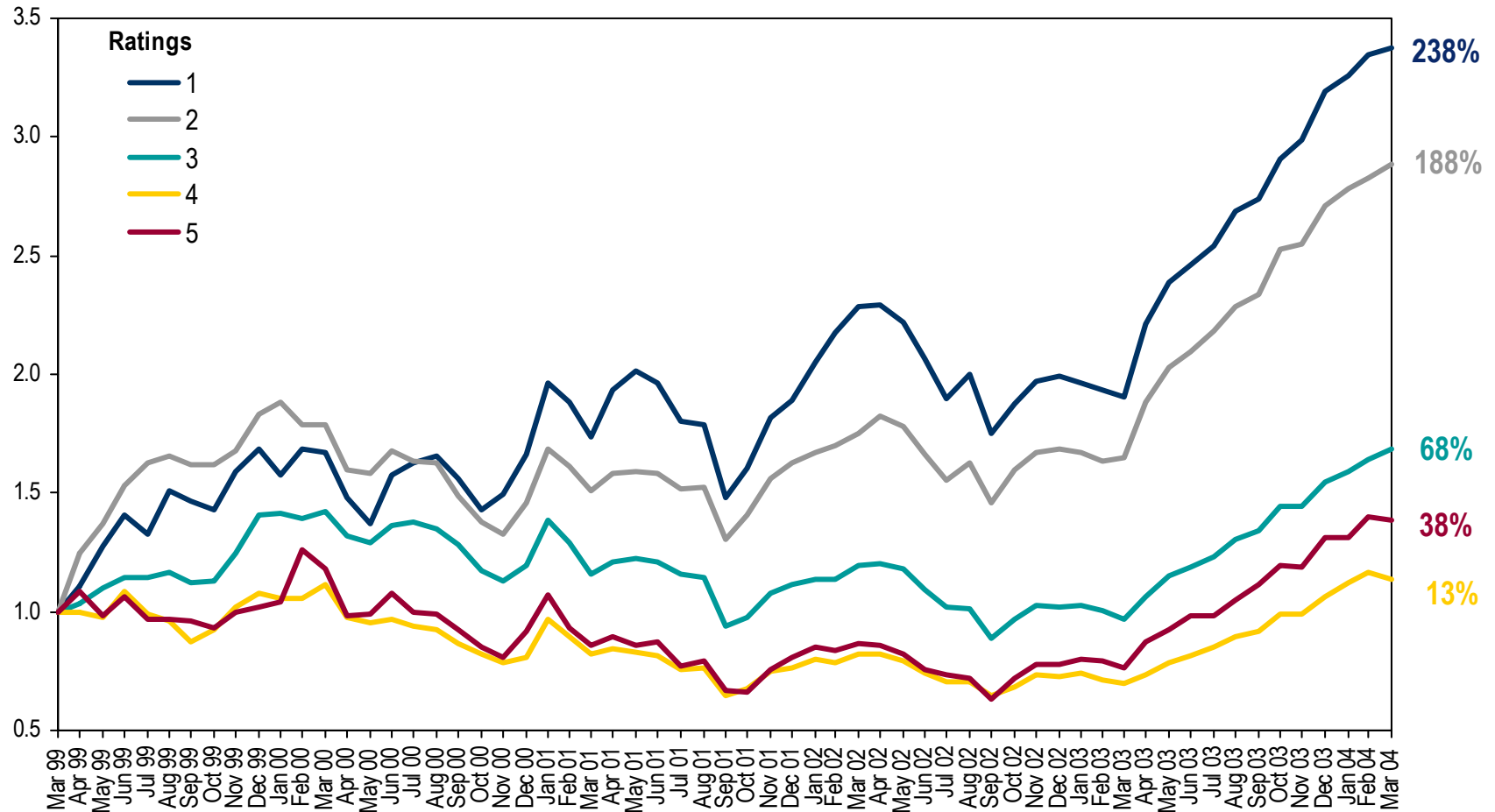
Step 2: Stock Ranking

Leveraging Proprietary Research



Performance of Covered Emerging Markets Stocks by Rating

Compounded Mean US\$ Return of Covered Emerging Markets Stocks by Rating
(31-Mar-1999 to 31-Mar-2004)



* Compounded excess returns relative to the average return of the Global Universe of stocks covered by Citigroup Asset Management Fundamental Research Team. Stocks are rated 1 to 5, where 1 represents an expected top-quintile performer and 5 represents an expected bottom-quintile performer. The information on this page is for illustrative purposes only and does not anticipate future performance. Source: Citigroup Asset Management, Bloomberg. This is confidential and proprietary information and may not be used other than by the intended user.

Step 3: Establish Sector/Country Cells and Identify Critical Cells

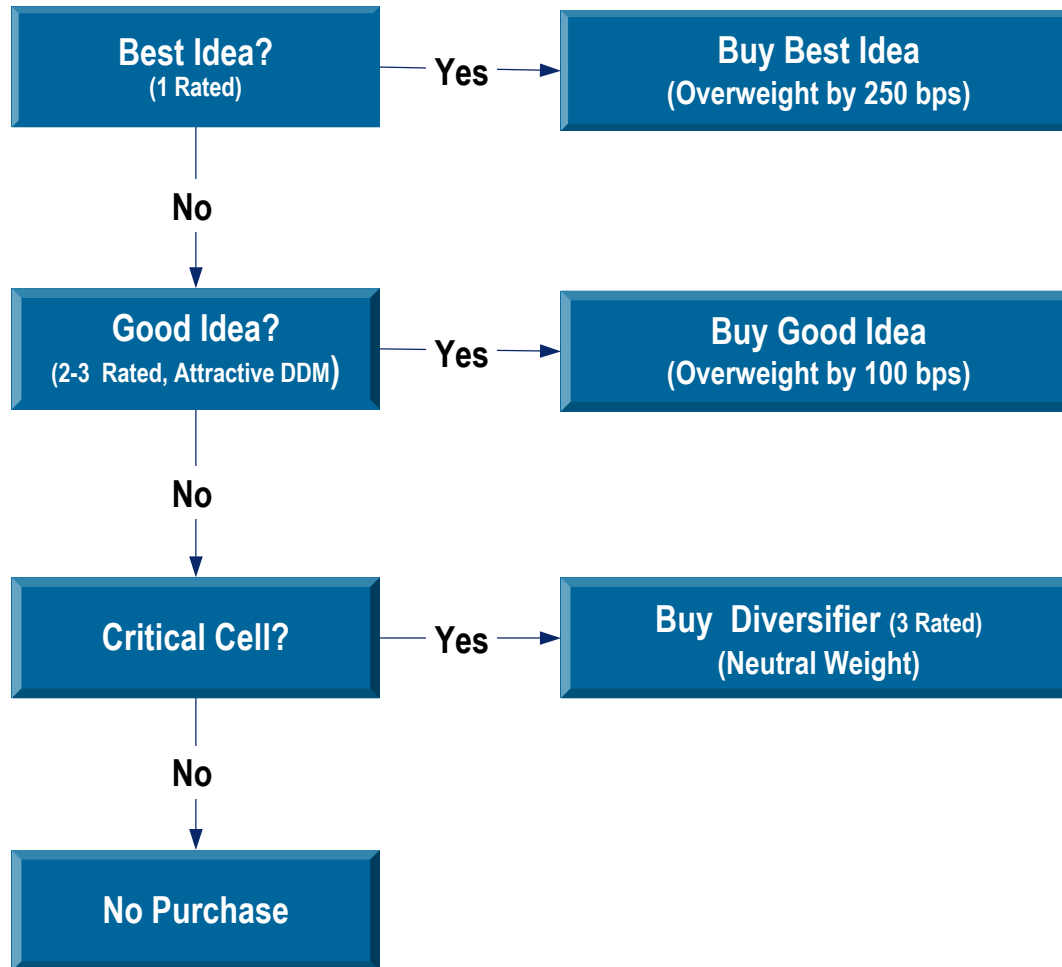
	Consumer Discret.	Consumer Staples	Energy	Financials	Health Care	Industrials	Info. Tech.	Materials	Telecom Services	Utilities	Total
EMEA											
Hungary			0.2%	0.4%	0.2%				0.2%		1.1%
Israel				0.6%	1.7%		0.7%				3.5%
Poland			0.3%	0.4%				0.2%	0.3%		1.3%
Russia			3.7%					0.6%		0.5%	4.9%
South Africa	0.5%	0.6%	1.0%	2.9%		0.7%		7.2%	0.6%		13.7%
Turkey	0.2%			0.7%							1.4%
Emerging Asia/Pacific											
China	0.6%		1.5%			1.4%	0.3%	0.4%	2.1%	0.6%	7.1%
India	0.5%	0.7%	0.9%	0.9%	0.5%	0.3%	0.9%	0.3%			5.1%
Indonesia	0.2%	0.3%		0.2%					0.5%		1.4%
Malaysia	0.9%	0.6%		1.3%		1.0%			0.5%	0.5%	4.9%
Philippines				0.3%							0.5%
Korea	2.6%	0.6%		3.1%		1.2%	8.2%	1.6%	1.6%	0.6%	19.6%
Thailand	0.2%		0.5%	0.8%				0.5%	0.3%		2.5%
Taiwan	0.6%	0.2%		2.4%		0.6%	7.7%	1.7%	0.3%		13.5%
Latin America											
Argentina			0.3%								0.5%
Brazil		0.9%	2.0%	1.1%		0.3%		1.9%	1.2%	0.6%	8.1%
Chile		0.2%		0.2%		0.4%		0.3%	0.3%	0.4%	1.9%
Mexico	0.9%	1.5%		0.5%		0.3%		0.8%	2.9%		6.8%
Venezuela									0.2%		0.2%
TOTAL	7.3%	6.1%	10.8%	16.6%	2.6%	6.4%	18.1%	16.5%	12.0%	3.7%	100.0%

Critical Cells: MSCI EMF Sector/Country Cells > 1%

Source: Citigroup Asset Management Research. As of 10-Nov-2003. This information does not constitute and should not be construed as investment advice or recommendations with respect to the sectors/countries listed above. Please see endnotes for additional information. This is confidential and proprietary information and may not be used other than by the intended user.

Step 4: Populate Cells

Populate Sector/Country Cells Based on Alpha Ranking



Step 4: Generate Model Portfolio

Model Portfolio Incorporates Best and Good Ideas

	Consumer Discret.	Consumer Staples	Energy	Financials	Health Care	Industrials	Info. Tech.	Materials	Telecom Services	Utilities	Total
EMEA											
Hungary				1.2%	1.0%				1.5%		3.6%
Israel				1.4%	3.2%						4.6%
Poland			1.0%	0.6%					1.0%		2.7%
Russia			3.9%								3.9%
South Africa			1.7%	3.6%				6.2%	1.3%		12.8%
Turkey		0.5%									0.5%
Emerging Asia/Pacific											
China	1.0%		0.5%			1.1%			1.2%		3.7%
India		1.0%		1.2%	1.0%		2.5%		1.6%		7.3%
Indonesia		0.8%							0.8%		1.6%
Malaysia				0.3%							0.3%
Philippines											0.0%
Korea	2.4%	0.8%		3.7%		0.3%	7.5%	3.1%	2.8%	2.1%	22.8%
Thailand			1.0%	1.1%							2.1%
Taiwan				1.4%			6.7%	0.7%	1.0%		9.7%
Latin America											
Argentina		0.4%									0.4%
Brazil		2.4%	3.3%	1.7%				0.9%	2.0%	1.4%	11.6%
Chile				0.3%						0.6%	1.0%
Mexico	0.5%	3.0%		1.3%					3.0%		7.8%
Venezuela											0.0%
TOTAL	3.9%	8.9%	11.4%	17.6%	5.2%	1.3%	16.7%	11.0%	16.9%	5.0%	98.0%

Critical cells: MSCI EMF Sector/Country Cells > 1%

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Step 4: Generate Model Portfolio

Process Seeks to Ensure High Conviction Levels Translate into Active Weights in Model Portfolio

Security	Country	Sector	Model Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)
1. Shinhan Financial Group	Korea	Financials	2.7%	0.4%	2.3%
2. ABSA Group Ltd	South Africa	Financials	2.1%		2.1%
3. Fomento Economica Mexicana	Mexico	Consumer Staples	2.4%	0.3%	2.1%
4. KT Corp	Korea	Telecom	2.8%	0.7%	2.1%
5. Posco	Korea	Materials	3.1%	1.2%	2.0%
6. Infosystems Technologies Ltd	India	Info.Tech.	2.5%	0.6%	1.9%
7. Companhia de Bebidas (Ambev)	Brazil	Consumer Staples	2.4%	0.6%	1.7%
8. Mahangar Telephone Nigam	India	Telecom	1.6%	0.1%	1.6%
9. Korea Electric Power Corp	Korea	Utilities	2.1%	0.6%	1.5%
10. Teva Pharmaceutical	Israel	Health Care	3.2%	1.7%	1.5%
11. Matav	Hungary	Telecom	1.5%	0.2%	1.2%
12. Petroleo Brasileiro	Brazil	Energy	3.3%	2.0%	1.2%
13. Impala Platinum Holdings Ltd	South Africa	Materials	1.7%	0.7%	1.0%
14. Vale Do Rio Doce	Brazil	Materials	0.3%	1.2%	-1.0%
15. Kia Motors Corporation	Korea	Consumer Discr.	1.1%	0.2%	1.0%
16. Shanghai Industrial Holdings Ltd	China	Industrials	1.1%	0.1%	1.0%
17. Shinsegae Department Store	Korea	Consumer Discr.	1.2%	0.3%	1.0%
18. Telefonos de Mexico	Mexico	Telecom	2.5%	1.6%	0.9%
19. Yukos	Russia	Energy	1.7%	0.8%	0.9%
20. Housing Development Finance Corp	India	Financials	1.2%	0.3%	0.9%
21. Kasikornbank Plc	Thailand	Financials	1.1%	0.2%	0.9%
22. ITC Ltd	India	Consumer Staples	1.0%	0.2%	0.9%
23. China Resources Enterprises	China	Consumer Discretionary	1.0%	0.1%	0.9%
Top Quartile (23 largest active positions)			43.7%	14.1%	31.5%

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Step 5: Risk Management

Comprehensive Risk Management Processes

- Capital preservation and value protection¹
 - Country risk actively monitored
 - In-depth fundamental research applied to identify potential negative earnings surprises
 - Disciplined application of DDM valuation model applied to avoid overvalued securities
- Seeks consistency of returns relative to benchmark
 - Critical Cell Concept and Cell Population Methodology
 - Further risk constraints²
 - Active Countries: $\pm 5.0\%$
 - Active Sectors: $\pm 8.0\%$
 - Active Cells: $\pm 2.0\%$
 - Individual Stocks: Maximum holding of +2.5% of benchmark weight
 - Proprietary web-enabled Barra-based Risk Desk

¹ There is no guarantee these objectives will be met.

² Subject to change. Please see endnotes for additional information.

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Step 6: Final Portfolio

Portfolio Managers Add Value Through Continuous Validation and Market Expertise

- Validation of inputs
 - Challenge analyst assumptions
 - Question country strategists
- Final decision making
 - Reconciliation of views first attempted at the model input level
 - Overrides limited with differences in views fully explained

Portfolio Managers are fully accountable for performance