

Private Bank **citi**

Legacy Insights

Harness The Power of Innovation in your Portfolio



Private Banking for Global Citizens

HARNESS THE POWER OF INNOVATION IN YOUR PORTFOLIO

PHILIP WATSON - CHIEF INNOVATION OFFICER
AND HEAD, GLOBAL INVESTMENT LAB,
CITI PRIVATE BANK



We are living in an age of heightened innovation. Across the world, a select group of companies - many of which did not even exist a few years ago - are reshaping industries that had often seen little change for generations. Innovative products and services can now achieve tens of millions of users within a few weeks or months, instead of the years or decades it might have taken in the past. Citi Private Bank believes this latest era of innovation is still only in its early stages. If so, the implications for the global economy and for investment portfolios could be far-reaching.

While innovation is discussed almost constantly nowadays, it is not well understood. The term is often simply taken to mean new technologies, especially those in the digital domain. In truth, though, innovation extends far beyond the latest game-changing device or app. It can embrace business model enhancements, process refinements, and better ways of reaching customers via marketing and distribution. Innovation is also at work in industries well beyond high tech, even in more traditional industries such as construction, food processing, and textiles.

The COVID-19 pandemic has emphasized our growing reliance on innovation. Thanks to digital innovators such as videoconferencing services, for example, entrepreneurs and employees in many countries have managed to work from home more effectively than ever before. Children and students are being educated remotely, and friends have resorted to throwing virtual parties during the lockdown. Online retailers have played a vital role in fulfilling basic needs, while cutting-edge entertainment services have kept spirits up amid the confinement and isolation. Ultimately, healthcare innovators will invent the vaccine that permits life to return to normal, and perhaps avert future pandemics.

While the pandemic is only temporary, we believe some parts of its legacy may endure. For example, the success of mass telework during the present lockdowns could alter future patterns of professional life - and economic activity. A change in the mix of on-site work, remote work, and business travel might permanently influence demand for space, accommodation, and transportation. At the same time, the preventative use of disease detection technology could become widespread in order to reduce the chances of future virus epidemics becoming pandemics.

So, why does innovation matter so much? At the macroeconomic level, innovation is a key driver of growth. Indeed, it may be the most important driver of all. Innovation can spark increased productivity, which leads to stronger growth and higher living standards. At the corporate level, innovative businesses tend to be more profitable. According to one recent study, companies whose employees generate a greater number of original ideas accepted by management for active development and implementation tend to enjoy greater profitability.¹

Innovative firms' potential to achieve greater profitability may in turn influence their investment performance. Perhaps most prominent example of this are the so-called FAANG stocks, the US tech giants that have helped power the bull market in US equities over recent years.²

¹ Are innovative companies more profitable? Dylan Minor, Paul Brook, and Josh Bernoff - MIT Sloan Management Review, December 2017

² Past performance is no guarantee of future returns. Real results may vary. The FAANG stocks are five prominent US tech stocks: Facebook, Amazon, Apple, Netflix, and Alphabet (previously Google.) This is neither a recommendation to buy nor sell equities of the companies mentioned. They are shown for illustrative purposes only.

Taking a broader view, we find that many of the top publicly traded companies with the highest research and development intensity - a likely marker of a corporate culture of innovation - have been outperforming numerous global equities.

Given innovation's potential to drive investment returns, we believe that portfolio exposure to related assets is not simply desirable but essential. The majority of this exposure should be built into your core portfolio. A core portfolio is a long-term, globally diversified, multi-asset class holdings that should make up 80% to 95% of your investment wealth. If you have high conviction in particular innovative companies or sub-sectors, you can build further short- or long-term exposure via a complementary opportunistic portfolio, containing 5% to 20% of your investment wealth.

Within your core and opportunistic portfolios, we also recommend emphasizing select multi-year investment themes. These themes represent some of the major forces that we think likely to shape the economy and your wealth over the long term. Innovative trends, technologies, and behaviors are central to many of our themes.

In our Unstoppable Trends theme, for example, we make the case for exposure to cybersecurity, the fintech sector, alternative energy, Asian technology and urbanization, as well as novel treatments for illnesses amid rapidly aging population.³



³ <https://www.privatebank.citibank.com/outlook/unstoppable-trends.html>

Despite our advice, many clients lack sufficient exposure to innovation. In a recent study of almost 2,900 clients portfolios⁴, we found that 87% were underinvested in our Unstoppable Trends theme. As well as forgoing potential returns from innovative companies, such behavior also risks excessive exposure to the victims of innovation. For example, e-commerce has disrupted many traditional retailers as well as related real estate assets. We warn that the same could eventually be true for many fossil fuel energy companies, as the shift towards alternative energy sources progresses.

Of course, we recognize that selecting innovators and their likely victims is far from easy. Such is the diversity and pace of innovation that simply keeping abreast of developments can be daunting. Citi Private Bank's Innovation Office was established to help identify trends that we believe are likely to transform businesses and impact investments in those industries. As well as our own insights, we draw upon expertise from across Citi, including its institutional research analysts, its six Innovation Labs, and Citi Ventures – a Silicon Valley based investor in start-ups. We share this intelligence with you in white papers, at events, and in personalized briefings.

How well is your portfolio positioned for innovation? To seek the answer to this critical question, your first step should be to ask us for your personalized Outlook Watchlist report. This will compare your actual holdings to the allocation that we recommend for you, including exposure to innovators and their potential victims. Your relationship team can then recommend suitable investment ideas for bringing your portfolio into line. If you have very specific queries about allocating to innovation, our Global Investment Lab can then perform a customized analysis. Let us help you harness the power of innovation in your portfolio today.

⁴ Study conducted by Global Investment Lab, Citi Private Bank, as of 18 Feb 2020.

Citi Private Bank is a business of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations. In the U.S., investment products and services are provided by Citigroup Global Markets Inc. ("CGMI"), member FINRA and SIPC, and also Citi Private Advisory, LLC ("Citi Advisory"), member FINRA and SIPC. CGMI accounts are carried by Pershing LLC, member FINRA, NYSE, SIPC. CGMI, Citi Advisory and Citibank, N.A. are affiliated companies under the common control of Citigroup.

Outside the U.S., investment products and services are provided by other Citigroup affiliates. Investment Management services (including portfolio management) are available through CGMI, Citi Advisory, Citibank, N.A. and other affiliated advisory businesses.

This document is for informational purposes only. All opinions are subject to change without notice. Opinions expressed herein may differ from the opinions expressed by other businesses of Citigroup Inc., are not intended to be a forecast of future events or a guarantee of future results. Although information in this document has been obtained from sources believed to be reliable, Citigroup Inc. and its affiliates do not guarantee its accuracy or completeness and accept no liability for any direct or consequential losses arising from its use.

Citigroup Inc. and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Citibank N.A., London Branch (registered branch number BR001018), Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The contact number for Citibank N.A., London Branch is +44 (0)20 7508 8000.

Citibank Europe plc is registered in Ireland with company registration number 132781. It is regulated by the Central Bank of Ireland under the reference number C26553 and supervised by the European Central Bank. Its registered office is at 1 North Wall Quay, Dublin 1, Ireland. Ultimately owned by Citigroup Inc., New York, USA. Citibank Europe plc, UK Branch is registered as a branch in the register of companies for England and Wales with registered branch number BR017844. Its registered address is Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. VAT No.: GB 429 6256 29. It is authorised by the Central Bank of Ireland and by the Prudential Regulation Authority. It is subject to supervision by the Central Bank of Ireland, and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

Citibank Europe plc, Luxembourg Branch is a branch of Citibank Europe plc with trade and companies register number B 200204. It is authorised in Luxembourg and supervised by the Commission de Surveillance du

Secteur Financier. It appears on the Commission de Surveillance du Secteur Financier register with company number B00000395. Its business office is at 31, Z.A. Bourmicht, 8070 Bertrange, Grand Duchy of Luxembourg. Citibank Europe plc is registered in Ireland with company registration number 132781. It is regulated by the Central Bank of Ireland under the reference number C26553 and supervised by the European Central Bank. Its registered office is at 1 North Wall Quay, Dublin 1, Ireland.

In Jersey, this document is communicated by Citibank N.A., Jersey Branch which has its registered address at PO Box 104, 38 Esplanade, St Helier, Jersey JE4 8QB. Citibank N.A., Jersey Branch is regulated by the Jersey Financial Services Commission. Citibank N.A. Jersey Branch is a participant in the Jersey Bank Depositors Compensation Scheme. The Scheme offers protection for eligible deposits of up to £50,000. The maximum total amount of compensation is capped at £100,000,000 in any 5 year period. Full details of the Scheme and banking groups covered are available on the States of Jersey website www.gov.je/dcs, or on request.

In Canada, Citi Private Bank is a division of Citibank Canada, a Schedule II Canadian chartered bank. References herein to Citi Private Bank and its activities in Canada relate solely to Citibank Canada and do not refer to any affiliates or subsidiaries of Citibank Canada operating in Canada. Certain investment products are made available through Citibank Canada Investment Funds Limited ("CCIFL"), a wholly owned subsidiary of Citibank Canada. Investment Products are subject to investment risk, including possible loss of principal amount invested. Investment Products are not insured by the CDIC, FDIC or depository insurance regime of any jurisdiction and are not guaranteed by Citigroup or any affiliate thereof.

Citibank, N.A., Hong Kong/ Singapore organised under the laws of U.S.A. with limited liability. In Hong Kong, this document is issued by CPB operating through Citibank, N.A., Hong Kong branch, which is regulated by the Hong Kong Monetary Authority. Any questions in connection with the contents in this document should be directed to registered or licensed representatives of the aforementioned entity. In Singapore, this document is issued by CPB operating through Citibank, N.A., Singapore branch, which is regulated by the Monetary Authority of Singapore. Any questions in connection with the contents in this document should be directed to registered or licensed representatives of the aforementioned entity. To the extent this document is provided to clients who are booked and/or managed in Hong Kong: No other statement(s) in this document shall operate to remove, exclude or restrict any of your rights or obligations of Citibank under applicable laws and regulations. Citibank, N.A., Hong Kong Branch does not intend to rely on any provisions herein which are inconsistent with its obligations under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, or which mis-describes the actual services to be provided to you.

Citibank, N.A. is incorporated in the United States of America and its principal regulators are the US Office of the Comptroller of Currency and Federal Reserve under US laws, which differ from Australian laws. Citibank, N.A. does not hold an Australian Financial Services Licence under the Corporations Act 2001 as it enjoys the benefit of an exemption under ASIC Class Order CO 03/1101 (remade as ASIC Corporations (Repeal and Transitional) Instrument 2016/396 and extended by ASIC Corporations (Amendment) Instrument 2020/200).

© 2020 Citigroup Inc. All Rights Reserved. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc. or its affiliates, used and registered throughout the world.

INVESTMENT PRODUCTS: NOT FDIC INSURED · NOT CDIC INSURED · NOT GOVERNMENT INSURED ·
NO BANK GUARANTEE · MAY LOSE VALUE

We serve worldly and wealthy individuals
and families with private banking that
crosses all borders.

Private Banking for Global Citizens

Private Bank

