

**Part 2A of Form ADV: Firm Brochure**  
**CITIGROUP GLOBAL MARKETS INC./CITI**  
**PRIVATE BANK**

**Financial Planning Service**

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**SEPTEMBER 26, 2012**



**This firm brochure ("Brochure") provides information about the qualifications and business practices of Citigroup Global Markets Inc. If you have any questions about the contents of this Brochure, please contact us at +1 212 816 6000 or [www.privatebank.citigroup.com](http://www.privatebank.citigroup.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Citigroup Global Markets Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Where we refer to ourselves as a "registered investment adviser" or "registered", that registration does not imply a certain level of skill or training.**

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**INVESTMENT AND INSURANCE PRODUCTS: NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT  
INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE**

## **Item 2. Material Changes**

Since our annual update, filed on March 31, 2011, the following material changes were made to the brochure.

Item 1 (Cover Page) – We have updated our address.

Item 9 – The disciplinary information for Citigroup Global Market Inc. has been updated to include additional regulatory events.

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## Item 4. Advisory Business

### *General Description*

Citigroup Global Markets Inc. (“CGMI”) is a wholly owned subsidiary of Citigroup Inc. Citigroup Inc. is a publicly held company. CGMI commenced operations in February 1964. CGMI’s principal activities include retail and institutional private client services, such as advice with respect to financial markets, securities and commodities, and executing securities and commodities transactions as broker or dealer; securities underwriting and investment banking; investment management (including fiduciary and administrative services); and trading and holding securities and commodities for its own account.

CGMI is registered as a securities broker-dealer and as a futures commission merchant. CGMI is a member of all principal securities and commodities exchanges in the United States and the Financial Industry Regulatory Authority, formerly known as National Association of Securities Dealers, Inc. In addition, it is a member of several principal foreign securities and commodities exchanges.

### *Services Provided: Financial Planning*

CGMI offers a wide range of investment advisory services and brokerage services. This Brochure primarily describes an investment advisory service, the Citigroup Global Markets Inc./Citi Private Bank Financial Planning Service (hereinafter referred to as “Financial Planning” or the “Financial Planning Program”). The Financial Planning Program is offered to clients of CGMI, and Citi Private Bank (“CPB”), 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.

**Clients should read and consider carefully the information contained in this Brochure. While CGMI believes that its professional investment advice can work to benefit many clients, there is no assurance that the objectives of any client in any of the programs described herein will be achieved.**

Financial Planning is a self-contained investment advisory service, not a brokerage service, and is designed to provide a client with a comprehensive written financial plan tailored to the client’s individual financial circumstances (hereinafter referred to as the “Plan” or “Financial Plan”). Financial Planning helps a client to identify his or her financial objectives, analyzes the client’s current financial situation, and creates a Plan that provides recommendations regarding the client’s objectives.

This advisory service is limited solely to the preparation and delivery of a Financial Plan to the client, and terminates either when CGMI delivers a Financial Plan to the client or as otherwise described upon notice or information received from CGMI. Once the Financial Plan is delivered, there is no further obligation on the part of the client or CGMI to implement the Financial Plan.

The Financial Planning Program consists of the following elements:

- **The Financial Profile.** With the assistance of a Financial Advisor, the client will complete a personal financial profile (referred to as the “Financial Profile”). The Financial Profile is designed to provide the Financial Advisor with comprehensive information about each client’s financial situation. Generally, the Financial Profile contains information about the client’s current assets, liabilities, income sources, and

expenditures, current tax status and future tax objectives, educational, retirement and other long-term financial goals, insurance requirements, and estate planning.

- **The Plan.** Based on the information disclosed in the Financial Profile, CGMI will prepare a Plan. Each Plan is tailored to the individual needs of each client, but generally the Plan includes an analysis of the client's current financial position, a summary of the client's financial objectives that were identified in the Financial Profile (e.g., education, retirement, estate planning, and other long-term financial goals), and recommendations and an analysis regarding each of these financial objectives. **Each of CGMI's and its affiliates' advisory plans may be based on a different model or methodology, and as a result, asset allocation or other advice may differ from plan to plan. Further, the Plan may use planning and analysis software, models and programs licensed or obtained for use by CGMI from vendors or other third parties.**

Once the Plan is delivered, while a Financial Advisor is available to assist the client, the client has the ultimate authority and responsibility for determining whether, when and how to implement any part of the Plan. Neither CGMI nor CPB or its affiliates has any authority or obligation to implement the recommendations contained in the Plan unless the client engages CGMI or CPB separately to do so, and the client has no obligation to implement the Plan through CGMI or CPB. If the client chooses to implement any portion of the Plan through CGMI or CPB, the client may choose to effect the transactions in an advisory account, a brokerage account, or a combination of both types of accounts. Clients should consult their Financial Advisor to discuss these differences because they may be material to the type of service or relationship the client seeks to obtain with CGMI or CPB.

CGMI relies on the client's care, completeness and clarity in responding to the Financial Profile questionnaire, as the client's responses will form the factual basis for preparing the Plan. The Financial Profile questionnaire may call for the client to disclose assets managed or maintained with other financial services firms. CGMI is a full-line financial services firm, and the client's Financial Advisor may recommend that the client switch to using comparable or competitive services available through CGMI, for which CGMI would be compensated.

There are several fundamental differences between brokerage services and advisory services, which may vary depending upon the characteristics of a particular service. Brokerage services primarily involve assisting the client with the purchase and sale of securities, with the provision of investment advice being only incidental to those services. Investment advisory services, on the other hand, primarily involve separately agreeing with the client to provide investment advice to meet comprehensive long-term financial goals. In a brokerage account or service, CGMI's and the client's Financial Advisor's interests may not always be the same as the client's interests. Brokerage firms, including CGMI, are paid both by the client and, sometimes, by others, who compensate the brokerage firm based on what the client buys.

In providing advisory services, CGMI must act as a fiduciary and put the client's interests ahead of our own and treat all of our advisory clients fairly and equitably. Additionally, CGMI must disclose all material conflicts between our interests and the advisory client's interests, and follow rules requiring client consent when effecting certain trades between the accounts of two clients or engaging in principal trading (where CGMI, through its own account, sells a security to, or buys a security from, a client's account). Brokerage activities are regulated under different laws

and rules than advisory activities and, while brokerage activities have their own set of regulatory obligations and customer protections, they generally do not give rise to these fiduciary obligations. For example, laws relating to brokerage services do not prohibit a broker-dealer from trading as principal with brokerage clients or acting as agent for two brokerage account customers in the same trade without first obtaining client consent, provided that the broker-dealer discloses this capacity on trade confirmations sent to clients.

Specific advisory programs and brokerage accounts may differ in other ways, so it is important that the client read carefully the agreements and disclosures CGMI provides with respect to each CGMI product or service the client may consider in implementing its Financial Plan. By providing a Financial Plan through this Financial Planning service, neither CGMI, CWMB, nor your Financial Advisor is acting as a fiduciary for purposes of Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Internal Revenue Code of 1986, as amended, (the "Code") with respect to any ERISA-covered employee benefit plan, any other type of retirement plan (such as a SEP or a SIMPLE), or any individual retirement account in either the planning, execution or provision of this Financial Planning service. You acknowledge that CGMI, CWMB, its affiliates and their respective employees, agents and representatives, including your Financial Advisor: (a) do not have discretionary authority or control with respect to the assets in any ERISA-covered employee benefit plan, any other type of retirement plan, or any individual retirement account included in this Financial Plan, (b) will not be deemed an "investment manager" as defined under ERISA, or otherwise have the authority to act as a "fiduciary" (as defined under ERISA) with respect to such assets, and (c) will not provide "investment advice," as defined by ERISA and/or the Code, as amended, with respect to such assets and does not have a responsibility to do so

For more information about the Financial Planning Program and other investment advisory programs or brokerage accounts offered by CGMI, as well as assistance in determining which service may best be suited to your needs and objectives, the differences between investment advisory accounts and brokerage accounts, including potential conflicts of interest and your rights and CGMI's obligations to you, please contact your private banker. Upon request, your private banker will provide you with a copy of Citigroup Global Markets Inc.'s Advisory Services Brochure regarding products offered to clients of CGMI and CPB.

CGMI, CPB and/or the Financial Advisor also may provide to the client other services that are unrelated to the Plan during and after the client's involvement in the Financial Planning Program. Any additional services will be provided under a separate agreement between CGMI or CPB and the client.

### ***CGMI's Advisory Services***

Clients may choose to implement their financial plans by opening an advisory account with CGMI. CGMI recommends and employs various investment strategies in providing investment management services, depending upon the services to be rendered and the objectives and guidelines of the client. Not all of these strategies are appropriate for all clients, however, and only those strategies believed to be suitable will be recommended in any given client account or advisory program. Each of CGMI's and its affiliates' advisory programs may be based on a different methodology, and as a result, asset allocation or recommendations may differ from program to program. Please consult CGMI's Investment Advisory Programs Brochure for more information.

### ***CGMI Brokerage and Research Services***

Clients may choose to implement their financial plans by opening a brokerage account with CGMI. As a registered broker-dealer, CGMI regularly advises clients about, and executes transactions in, a wide variety of securities and other investments. It and its affiliates also act in a partnership capacity in a number of limited partnerships in which its clients may invest. As a futures commission merchant, CGMI also provides advice on commodities and commodity related products.

CGMI provides a wide range of research services to its clients, including reports, analyses, charts and graphs relating to various facets of the investment spectrum in equity and fixed income products. Research services generally are provided to clients on the assumption that the services generate commission or other business for CGMI. However, certain research services may be provided on a hard-dollar, fixed-fee basis and/or, in the case of firms that may re-sell such services, on a hard-dollar, royalty-fee basis. The amount or rate of any hard-dollar fee generally is negotiable.

### ***Particular Investment Restrictions***

CGMI provides Financial Planning services tailored to the specific needs of individual clients. Because the asset allocation in a Plan does not recommend specific securities or holdings, CGMI does not ask clients for security-specific investment restrictions.

### ***Wrap Fee Programs***

The Financial Planning program is not offered as a wrap fee program.

### ***Assets Under Management***

While this information does not apply to the financial planning services described in this Brochure, as of December 31, 2011, client assets managed on a discretionary basis totaled \$12,074,689,809 and client assets managed on a non-discretionary basis totaled \$9,169,264,469.

## **Item 5: Fees and Compensation**

### ***Fees Charged & Method of Payment of Fees***

No fee is charged for participation in the Financial Planning Program. CGMI and CPB do not accept compensation from any third party in connection with providing services under the Financial Planning Program.

Financial Advisors earn a salary and are eligible for a discretionary bonus. These bonuses are made at the discretion of management and are based on a variety of factors, including the Financial Advisor's performance, the performance of the business, and the performance of Citigroup.

## **Item 6. Performance-Based Fees and Side-By-Side Management**

CGMI does not charge any fees, including performance-based fees, in the Financial Planning Program.

## **Item 7. Types of Clients**

Clients are high net worth individuals with a minimum net worth of \$1 million.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### ***Methods of Analysis & Strategies***

Investing in securities involves risk of loss that clients should be prepared to bear. Investors should give careful consideration to the following risk factors and conflicts of interest detailed in this Item 8 and other product-specific information provided by the product or CGMI in evaluating the merits and suitability of any Investment Advisory products.

The Financial Planning Program does not utilize any methods or strategies. The client's risk tolerance is determined through a formal questionnaire or through the Investment Objective Statement (IOS). The client chooses an asset allocation based on their level of risk tolerance. This can range from traditional only (e.g., Cash, Fixed Income, Equities) to asset allocation models which include alternatives (e.g., Hedge Funds, Private Equity, Real Estate and Commodities).

### ***Material Risks Related to Investment Strategies***

The following does not purport to be a comprehensive summary of all the risks and conflicts of interest associated with products that a client may use in implementing a Financial Plan. Not all types of securities and strategies are suitable for every client. Investing in securities involves risk that the client should be prepared to bear.

#### ***Equity Risks***

**Large-Cap Stocks:** Asset classes based on large capitalization companies are subject to the basic market risk that a particular security, or securities in general, may decrease in value over short or even extended time periods. Large capitalization companies also face the risk that they may not be able to adapt to changing market conditions whether caused by changes in the industry, technology, consumer tastes or the regulatory environment.

**Mid-Cap Stocks:** Securities of medium-sized companies may be more volatile than those of larger companies. Securities issued by medium-sized companies also may be harder to buy or sell than those of larger, more established companies.

**Small-Cap Stocks:** Small cap stocks carry greater risk than investments in larger, more established companies. The securities of small- capitalization companies are subject to high volatility than larger, more established companies. An investment in these funds may not be appropriate for individuals who require safety of principal or stable income from their investments.

#### ***Fixed Income Risks***

**Bonds:** Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, accounts may be forced



to reinvest proceeds from prepaid bonds when prevailing interest rates are lower than when the initial investment was made.

Certain investors may be subject to the federal alternative minimum tax (AMT) and state and local taxes will apply. Capital gains, if any, are fully taxable.

### ***International Risks***

**International/Global Investing:** There may be additional risk associated with international investing, including foreign, economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets.

### ***Alternative Investments***

**Hedge Funds:** For the hedge funds asset class including hedge funds of funds, special investment considerations may include: (i) investor net asset minimum criteria; (ii) investment vehicle entry and exit conditions; (iii) regulatory, tax reporting and/or compliance requirements; (iv) suitability guidelines; and (v) other risk factors that may vary by investor category. Hedge funds are generally illiquid investments and are subject to restrictions on transferability and resale.

**Private Equity:** For the private equity asset class, special investment considerations may include: (i) investor net asset minimum criteria; (ii) investment vehicle entry and exit conditions; (iii) regulatory, tax reporting and/or compliance requirements; (iv) suitability guidelines; and (v) other risk factors that may vary by private equity subcategory. Private Equity investments are generally illiquid investments and are subject to restrictions on transferability and resale.

**Real Estate Investments:** Property values can fall due to environmental, economic or other reasons, and change in interest rates can negatively impact the performance of real estate companies.

**Commodities:** Commodities may be more volatile than traditional securities. Their value may be affected by changes in overall market movements and by factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Because the value of a commodity-linked derivative investment typically is based upon the price movements of a physical commodity (such as heating oil, livestock, or agricultural products), a commodity futures contract or commodity index, or some other readily measurable economic variable, the value of commodity-linked derivative instruments may be affected by changes in overall market movements, volatility of the underlying index, changes in interest rates, or the factors listed above that may affect a particular industry or commodity.

**The foregoing list of risk factors is not a complete explanation of the risks involved in an investment in securities.**

## **Item 9. Disciplinary Information**

Below are summaries of certain legal and disciplinary events that may be material to clients and prospective clients. Additional information about legal and disciplinary events is available in Item 11 of our Form ADV, Part 1A, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## SEC Administrative Proceeding Against Citigroup Global Markets Inc and Smith Barney Fund Management LLC

On May 31, 2005, the Securities and Exchange Commission (the “SEC”) issued an order in connection with the settlement of an administrative proceeding against CGMI and Smith Barney Fund Management LLC (“SBFM”) relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (the “Smith Barney Funds”). SBFM was an affiliate of CGMI during the relevant period.

The SEC order finds that SBFM and CGMI willfully violated Section 206(1) of the Advisers Act. Specifically, the order finds that SBFM and CGMI knowingly or recklessly failed to disclose to the Boards of the Smith Barney Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Service Group (“First Data”), the Smith Barney Funds’ then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and that Citigroup Asset management (“CAM”), the Citigroup business unit that includes the Smith Barney Funds’ investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGMI. The order also finds that SBFM and CGMI willfully violated Section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the material provided to the Smith Barney Fund’s Boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Smith Barney Funds’ best interest and that no viable alternatives existed. SBFM and CGMI do not admit or deny any wrongdoing or liability. The settlement does not establish wrongdoing or liability for purposes of any proceeding.

The SEC censured SBFM and CGMI and ordered them to cease and desist from violations of Section 206(1) and 206(2) of the Advisers Act. The order requires Citigroup to pay \$208.1 million, including \$109 million in disgorgement of profits, \$19.1 million in interest and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Smith Barney Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S Treasury and will be distributed pursuant to a plan to be prepared by Citigroup and submitted within 90 days of the entry of the order for approval by the SEC. The order also requires that transfer agency fees received from the Smith Barney funds since December 1, 2004 less certain expenses be placed in escrow and provides that a portion of such fees may be subsequently distributed in accordance with the terms of the order.

The order requires SBFM to recommend a new transfer agent contract to the Smith Barney Fund Boards within 180 days of the entry of the order. If a Citigroup affiliate submits a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expenses of SBFM to recommend a new transfer agent contract to the Smith Barney Fund Boards within 180 days of the entry of the order. If a Citigroup affiliate submits a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expense of SBFM and CGMI to oversee a competitive bidding process. Under the order, Citigroup also must comply with an amended version of a vendor policy that Citigroup instituted

in August 2004. The policy, as amended, among other things, requires that when requested by a Smith Barney Fund Board, CAM will retain at its own expense an independent consulting expert to advise and assist the Board on the selection of certain service providers affiliated with Citigroup.

#### Revenue Sharing and Sales of Mutual Fund Class B and C Shares

In March 2005, the Securities and Exchange Commission (the “SEC”) entered an administrative and cease-and-desist order against CGMI. The SEC order found that there were two disclosure failures by CGMI in the offer and sale of mutual fund shares to its customers. The first failure related to CGMI’s revenue sharing program, whereby CGMI received from advisers and distributors associated with about 75 mutual fund complexes revenue sharing payments, in exchange for which CGMI granted mutual funds access to, or increased visibility in, CGMI’s Smith Barney retail distribution network. The order found that CGMI did not adequately disclose its revenue sharing program to its customers but instead relied on the participating funds’ prospectuses and statements of additional information to satisfy its disclosure obligations with regard to its revenue sharing program. As a result, the order found that CGMI willfully violated Section 17(a)(2) of the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”). The second disclosure failure concerned CGMI’s sales of Class B mutual fund shares in amounts aggregating \$50,000 or more. The order found that CGMI failed to disclose adequately at the point of sale, in connection with recommendations to customers to buy Class B shares, that such shares were subject to higher annual fees and that those fees could have a negative impact on customer investment returns, depending on the amount invested and intended holding period. As a result, the order found that CGMI willfully violated Section 17(a)(2) of the Securities Act. Based on these findings, the SEC order censured CGMI, required CGMI to cease and desist from committing or causing violations and future violations of Securities Act Section 17(a) and Exchange Act Rule 10b-10, and required CGMI to pay a \$20 million civil money penalty.

In March 2005, NASD Inc. (“NASD”) censured and fined CGMI with respect to CGMI’s offer and sale of Class B and Class C mutual fund shares during 2002 and the first six months of 2003. The NASD found that CGMI either had not adequately disclosed at the point of sale, or had not adequately considered in connection with its recommendations to customers to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares generally would have been more advantageous for the customers. The NASD also found that CGMI’s supervisory and compliance policies and procedures regarding Class B and Class C shares had not been reasonably designed to ensure that SB CGMI advisers consistently provided adequate disclosure of, or consideration to, the benefits of the various mutual fund share classes as they applied to individual customers. As a result, the NASD found that CGMI violated NASD Conduct Rules 2110, 2310 and 3010. Based on these findings, the NASD censured CGMI and required CGMI to pay a \$6.25 million fine.

#### Research and Initial Public Offerings

In 2003, Salomon Smith Barney Inc. (“SSB”), now known as Citigroup Global Markets Inc. settled civil and regulatory actions brought by the U.S. Securities and Exchange Commission, the New York Stock Exchange, Inc. (“NYSE”), the NASD, the Attorney General of the State of New York (“NYAG”), and state securities regulators, which alleged violations of certain federal and state securities laws and regulations and certain NASD and NYSE rules by SSB arising out

of certain of its business practices concerning (1) sell-side research during the period 1999 through 2001, and (2) initial public offerings (“IPOs”) during the period 1996 through 2000. The actions alleged, among other things, that SSB published certain fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts and failed to adequately supervise the employees who engaged in those practices. It was also alleged that SSB engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material non-public information in certain circumstances.

Solely for the purpose of settling each proceeding, prior to hearing, without adjudication of any issues of law or fact, and without admitting or denying the facts or conclusions alleged in the respective regulators’ documents, SSB consented to findings that SSB violated certain federal and state securities laws and regulations and certain NASD and NYSE rules, as described above, and agreed to the sanctions described below. In settling the various civil and regulatory actions, SSB consented to the imposition of censures by NASD and NYSE, the issuance of cease and desist orders in state proceedings prohibiting it from violating certain state laws and regulations, the entry of a final judgment enjoining SSB from violating certain provisions of the federal securities laws and certain self-regulatory organization rules, and ordering it to make a total payment of \$400 million. The final judgment also ordered SSB to comply with its undertakings to implement certain structural reforms relating to the operation of its research and investment banking departments. SSB also agreed to participate in a voluntary initiative pursuant to which it will no longer make allocations of securities in hot IPOs to accounts of executive officers or directors of a U.S. public company or a public company for which a U.S. market is the principal equity trading market.

#### Market-Timing

On July 13, 2007, NYSE Regulation, Inc. (the “NYSE”) issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities (“NJBS”) against Citigroup Global Markets Inc. (“CGMI” or “the Firm”). The decision concerned the Firm’s failure to supervise adequately certain branch offices and CGMI advisers who engaged in deceptive mutual fund market timing on behalf of certain customers from January 2000 through September 2003. The decision notes that market timing occurred in the Firm’s proprietary funds and in non-proprietary funds. Between 1998 and May 2000, the Firm made efforts to end market timing in its proprietary funds and its fee-based mutual fund trading programs. Market timing by CGMI advisers in proprietary funds ended by late 2001 or early 2002. Market timing in non-proprietary funds continued until September 2003. The decision noted three CGMI branches for the most serious conduct, and that six branches accounted for over 40% of all market-timing transactions. The NYSE also found that while the Firm had policies in place to address market timing, such policies were inadequate and inadequately enforced.

Without admitting or denying guilt, the Firm consented to a finding that it violated: NYSE Rule 342 by failing to reasonably supervise certain business activities and establish and maintain appropriate procedures for supervision and control with respect to trading of mutual funds and fund-like sub-accounts of variable annuities; NYSE Rules 401(a) and 476(a) by failing to prevent certain brokers from engaging in violative market timing of mutual funds, including use of deceptive practices related to market timing of funds; and Section 17(a) of Securities Exchange Act of 1934, Rules 17a-3 and 17a-4 thereunder, and NYSE Rule 440 by failing to

make or preserve accurate books and records reflecting or relating to order communication and entry time for fund shares, rejection or cancellation of trades related to market timing, and orders or confirmations for transactions executed by Firm employees in variable annuity products sub-accounts held away from the Firm. The Firm consented to a penalty consisting of censure and a payment of \$50 million to be distributed as follows: (a) \$35 million to be placed in a distribution fund as disgorgement; (b) a penalty of \$10 million, half to be paid directly to NYSE Regulation and half to be paid directly to the distribution fund; and (c) a penalty of \$5 million to be paid to the State of New Jersey. The Firm also must appoint an Independent Distribution Consultant not unacceptable to the NYSE who will develop a distribution plan for the disgorgement amount, which, to the extent feasible, will go first to Firm customers who during the period January 2000 through September 2003 invested long-term in funds that were the subject of the market timing, with any funds not distributed to be returned to NYSE Regulation.

#### Auction Rate Securities Settlements

On December 11, 2008, the Commission filed a civil action in the federal district court for the Southern District of New York (the "Court"). The Judgment, which was entered on December 23, 2008: (i) permanently enjoined CGMI from directly or indirectly violating Section 15(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) provides that, upon later motion of the Commission, the Court will determine whether it is appropriate to order that CGMI pay a civil penalty pursuant to Section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGMI's Consent be incorporated into the Judgment and that CGMI comply with all of the undertakings and agreements set forth in the Consent, which include an offer to buy back at par certain ARS from certain customers. The Commission's Complaint alleged that: (1) CGMI misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGMI underwrote, marketed, and sold; (2) through its financial advisers, sales personnel, and marketing materials, CGMI misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGMI customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGMI decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGMI customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGMI had represented ARS to be. CGMI reached substantially similar settlements with the New York Attorney General (the "NYAG") and the Texas State Securities Board (the "TSSB"), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements: (1) made findings that CGMI failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (2) require CGMI to refund certain underwriting fees to certain municipal issuers. As part of the settlement with New York, CGMI paid a civil penalty of \$50 million. CGMI also has agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million, including \$3.59 million to Texas as part of the settlement with that state.

On Wednesday June 30, 2010, the SEC announced that CGMI, along with two other broker-dealers, had fulfilled their obligations under the 2008 ARS settlement, which required firms to, among other things, make "best efforts" to provide liquidity solutions for institutional clients who were not eligible for redemption, compensate investors who sold ARS below par, and reimburse investors for excess interest costs associated with loans taken out due to ARS

illiquidity. To ensure compliance with the settlement, the firms were subject to a potential deferred penalty if the firms did not meet their settlement obligations. The SEC determined that based on the firms' compliance with their respective settlements, as well as other factors, no penalties would be pursued.

CGMI has executed settlements with, and made payments to, all but two of the eligible states/territories.

#### New York Stock Exchange LLC (NYSE) Hearing Board Decision Related to Prospectus and Other Delivery Failure

On October 2, 2007, without admitting or denying the allegations, CGMI consented to a censure, a fine of \$2,500,000 and an undertaking in connection with certain alleged violations. Specifically, the consent alleged violations of NYSE Rule 401(A) due to the failure to ensure delivery of prospectuses in connection with certain sales of registered securities during the time period July 1, 2003 through October 31, 2004 (the "Relevant Period"); alleged violation of NYSE Rule 1100(b) due to CGMI's failure to deliver product descriptions to certain customers that purchased Exchange Traded Funds (ETFs) during the Relevant Period; alleged violation of Rule 10b-10 of the Securities Exchange Act of 1934 due to CGMI's failure to provide customers with confirmations for certain securities transactions during the Relevant Period; and alleged violations by CGMI of NYSE Rule 342 by failing to provide for, establish and maintain appropriate procedures of supervision and control relating to the delivery of product descriptions and prospectuses and trade confirmations.

During the Relevant Period, the Firm allegedly failed to have appropriate policies and procedures relating to the delivery of offering documents to customers that purchased certain securities. The failure to have these policies and procedures caused CGMI to experience numerous systemic deficiencies relating to the delivery of offering documents to customers that purchased certain securities. In particular, during the Relevant Period, the Firm failed to deliver product descriptions (or any other disclosure document, such as a prospectus) to certain customers who purchased ETFs in violation of NYSE rules. In addition, during the Relevant Period, the Firm failed to deliver prospectuses to certain customers who purchased equity and debt securities and mutual funds in violation of NYSE rules and federal securities laws. Furthermore, CGMI failed to send numerous trade confirmations to certain customers that purchased securities in violation of federal securities laws and NYSE rules.

#### NASD Inc. (NASD) Consent Related to Alleged Use of Misleading Materials in Retirement Seminars

On June 6, 2007, without an adjudication of any issue of law or fact, and without admitting or denying the findings, CGMI consented to a \$3 million fine to settle charges relating to the alleged use of misleading materials in retirement seminars and meetings for BellSouth employees in North Carolina and South Carolina.

Specifically, the NASD found that CGMI allegedly failed to adequately supervise a team of brokers based in Charlotte, NC, who used misleading sales materials during seminars and meetings of employees of BellSouth Corporation.

#### Financial Industry Regulatory Authority, Inc. (“FINRA”), Direct Borrow

On April 6, 2010, CGMI finalized a settlement agreement with FINRA in which it consented to a \$650,000 fine, without admitting or denying the findings, in connection with the operation of its Direct Borrow Program. CGMI allegedly failed to adequately disclose certain material facts to customers, establish and maintain a supervisory system reasonably designed to achieve compliance with applicable laws and regulations, and distributed marketing materials that were not fair and balanced.

#### SEC Investigation, Hedge Fund Marketing and Accounting Treatment

ASTA/MAT and Falcon were hedge funds managed and marketed by Citigroup that performed well for many years but suffered substantial losses during the credit crisis. The SEC is investigating the marketing, management and accounting treatment of the Falcon and ASTA/MAT funds. Citigroup is cooperating fully with the SEC's inquiry.

In addition, numerous investors in Falcon and ASTA/MAT have filed lawsuits or arbitrations against Citigroup and its affiliates including, in certain cases, the funds themselves seeking recoupment of their alleged losses. Many of those investor disputes have been resolved, and the remainder are in various procedural stages.

#### Pending SEC Claim Related to Collateralized Debt Obligation

On October 19, 2011, the SEC brought a civil action in the U.S. District Court for the Southern District of New York (“Court”) against CGMI in connection with the role of CGMI, along with certain of its affiliates (together “Citi”) in the structuring and marketing of a largely synthetic collateralized debt obligation (“CDO”) whose investment portfolio consisted primarily of credit default swaps referencing other CDO securities with collateral consisting primarily of residential mortgage-backed securities. The complaint alleged that the marketing materials for the CDO were materially misleading because they suggested that Citi was acting in the traditional role of an arranging bank, when in fact Citi had allegedly exercised influence over the selection of the assets and had retained a proprietary short position of the assets it had helped select, which gave Citi allegedly undisclosed economic interests adverse to those of the investors in the CDO. On October 14, 2011, the SEC and CGMI entered into a consent agreement settling this action. The consent agreement required the issuance of an injunction against CGMI from violating Sections 17(a)(2) and (3) of the Securities Act; imposition of liability on CGMI for payment of disgorgement of \$160 million with prejudgment interest thereon in the amount of \$30 million, and a civil penalty in the amount of \$95 million; and CGMI’s compliance with certain undertakings. In an order issued on October 27, 2011, the Court ordered to convene a hearing on November 9, 2011 to ascertain whether the proposed judgment is fair, reasonable, adequate, and in the public interest. The SEC and CGMI submitted memorandums responding to the questions set forth by the Court. On November 28, 2011, the Court issued an opinion and order refusing to approve the proposed consent agreement, consolidating this case with the action of an ex-employee of CGMI, and directing the parties to be ready to try the case on July 16, 2012. As of the date of preparing this disclosure statement, this matter is still pending.

#### FINRA Settlement Related to Municipal Securities Transactions

On November 7, 2011, without admitting or denying the allegations, CGMI consented to a fine of \$75,000, a censure, and a certain undertaking with FINRA in connection with municipal

securities transactions. FINRA alleged that CGMI failed to establish and maintain a supervisory system and to adopt, maintain, and enforce written supervisory procedures reasonably designed to achieve compliance with the disclosure requirements for municipal securities transactions in violation of Municipal Securities Regulation Board Rule G-27.

#### FINRA Settlement Related to Email Retention

On December 2, 2011, CGMI entered into a settlement with FINRA relating to failure to retain emails during an upgrade of its email archiving system. CGMI consented to a censure and a monetary fine of \$750,000 without admitting or denying the findings. FINRA alleged that during the period from October 21, 2008 to December 26, 2009, CGMI failed (i) to retain millions of emails, including emails not retained that potentially impacted its ability to respond to email requests in FINRA investigations and other matters; and (ii) to establish and maintain appropriate systems and procedures reasonably designed to achieve compliance with the applicable recordkeeping rules and detect and remedy deficiencies in its email retention systems.

#### FINRA Inquiry Into to Research Disclosures

On January 18, 2012, CGMI resolved a FINRA inquiry into CGMI research disclosures. Without admitting or denying the findings contained therein, CGMI consented to a censure and a monetary fine of \$725,000. Specifically, FINRA alleged that: (a) during at least January 2007 through March 2010, largely as the result of programming and technical errors and deficiencies, CGMI failed to make required disclosures in its research reports and in connection with research analysts' public appearances; (b) CGMI had inadequate systems to determine that its disclosure management system contained all accurate and current information, including information from third-party and internal sources, necessary to formulate required disclosures; (c) CGMI's supervisory system was not reasonably designed to detect that the firm was not populating its research reports with required disclosures; and (d) CGMI was not complying with certain undertakings pursuant to an earlier NASD settlement in 2006.

#### FINRA Settlement Related to Non-Traditional ETFs

On May 1, 2012, CGMI entered into a settlement with FINRA regarding the sale of leveraged, inverse, and inverse-leveraged exchange-traded funds ("Non-Traditional ETFs"). FINRA alleged that, during January 2008 through June of 2009, (i) CGMI failed to establish and maintain a reasonable supervisory system, including written procedures, in connection with the sale of Non-Traditional ETFs and to provide adequate formal training and guidance to its registered representatives and supervisors regarding Non-Traditional ETFs; and (ii) certain registered representatives made unsuitable recommendations of Non-Traditional ETFs to certain customers with a conservative investment objective or risk file. Without an adjudication of any issues of law or fact and without admitting or denying the findings, CGMI consented to a censure, a fine of \$2 million, and a restitution of \$146,431.

#### FINRA Settlement Related to Inaccurate Performance Data

On May 22, 2012, CGMI entered into a settlement with FINRA relating to CGMI's role in the provision of performance data related to mortgage securitizations. FINRA alleged that from January 2006 through October 2007, CGMI posted inaccurate performance data and static pool information to the Reg AB website of Citigroup Inc. (an indirect 100% owner of CGMI) in



connection with numerous securitizations, and CGMI failed to establish and maintain effective supervisory and operational policies and procedures regarding these issues. FINRA further alleged that inaccurate data remained on the Citigroup Reg AB website through May 2012. In addition, FINRA alleged that during July through September 2007, CGMI failed (a) to establish and maintain sufficient supervisory policies and procedures addressing independent price verification of Level 3 collateralized debt obligation securities, and to document price verification for such securities; (b) to include certain securities for which no price change had occurred over several days on an internal “stale price report”; (c) to supervise and sufficiently document certain re-pricings of securities held on margin that led to revised margin calls; and (d) to supervise and sufficiently document the application of “margin haircuts” to collateral outside of haircut ranges reflected in CGMI’s guidance. CGMI, without admitting or denying the findings, consented to a censure and a fine in the amount of \$3,500,000.

#### **Item 10. Other Financial Industry Activities and Affiliations**

CGMI is registered as a securities broker-dealer and as a futures commission merchant. Affiliates of CGMI are registered as commodity pool operators and/or commodity trading advisers. CGMI is a member of all principal securities and commodities exchanges in the United States and the Financial Industry Regulatory Authority. In addition, it holds memberships or associate memberships on several principal foreign securities and commodities exchanges. Certain management persons of CGMI are registered as registered representatives and associated persons of CGMI to the extent necessary or appropriate to perform their job responsibilities.

#### ***Material Relationships or Arrangements with Certain Related Persons***

CGMI has arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, other investment adviser and a banking or thrift institution.

Through its divisions, CGMI offers a wide variety of investment advisory services and programs. CGMI’s investment advisory services are available to individuals; banks or thrift institutions; retirement plans such as pension and profit sharing plans; investment companies; trusts; estates; charitable organizations; corporations or other business entities as well as governmental entities. The investment advisor divisions and affiliates of CGMI include: Citi Capital Advisors Limited; Citi Private Advisory, LLC; Citibank (Switzerland) A.G.; Citigroup Alternative Investments LLC; Citigroup Global Markets Singapore Pte Ltd.; Citigroup Venture Capital International Asia Limited; Cititrust (Bahamas) Ltd.; Cititrust (Cayman) Ltd.; Cititrust (Jersey) Ltd.; Consulting Group Advisory Services LLC; EMSO Partners HK Limited; EMSO Partners Limited; Morgan Stanley Private Wealth Management Ltd.; Morgan Stanley Smith Barney LLC; Morgan Stanley Smith Barney Private Management II LLC; Morgan Stanley Smith Barney Private Management LLC; Morgan Stanley Smith Barney Venture Services LLC; and ZAO Citibank. Additional information on affiliates of CGMI are available on Item 7.A of our Form ADV, Part 1A, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

CGMI and its affiliates provide a variety of services for various clients, including issuers of securities that CGMI may recommend for purchase or sale by financial planning clients. CGMI performs a wide range of investment banking services for various clients, and it is likely that CGMI client holdings will include the securities of issuers for whom CGMI performs investment

banking services. CGMI client portfolios may include securities in which CGMI makes a market or in which CGMI, its officers or employees have positions. CGMI and its affiliates receive compensation and fees in connection with the provision of the foregoing services. As part of an overall internal compliance program, CGMI has adopted policies and procedures imposing certain conditions and restrictions on transactions for CGMI's own account or the accounts of its employees. Such policies and procedures are designed to prevent, among other things, any improper or abusive conduct when potential conflicts of interest may exist with respect to a customer or client. In addition, Citibank, an affiliate of CGMI, may serve as a qualified custodian in certain programs. Please see "Item 4A.3 – Clearing and Custody Services" for more information on custody.

### ***Compensation from Investment Managers***

CGMI has trading, investment banking and other business relationships with Investment Management Firms.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### ***General***

CGMI has adopted a code of ethics and related policies and procedures (collectively, the "Code of Ethics") imposing standards of business conduct, including requirements to put client interests first and not to take inappropriate advantage of employment-related information. The Code of Ethics also restricts employee personal securities transactions and accounts. Such restrictions include, for all employees, prohibitions on trading in securities while in possession of related material, nonpublic information and, for certain CGMI employees, including Financial Advisors, minimum holding periods in certain situations, and reporting of personal securities accounts, transactions and/or holdings to the Compliance Department or supervisory business personnel. The purposes of the Codes of Ethics include minimizing potential conflicts of interests between employees and investment advisory clients and assuring compliance with applicable laws and regulations. Existing and prospective CGMI clients may obtain copies of the applicable Code of Ethics by mailing a written request for such document to:

Citigroup Global Markets Inc.  
153 East 53rd Street, 25th Floor  
New York, NY 10022  
Attention: Philip W. Gallo

A copy of CGMI's Code of Ethics will be provided to any client or prospective client upon request.

Each supervised person of CGMI receives a copy of the Code of Ethics upon being designated as a supervised person and annually thereafter. They must sign an attestation that indicates that they have read and understand such Code of Ethics. In conjunction with this attestation, all supervised persons are required to report any violation or potential violation of which they might become aware.

From time to time, CGMI imposes restrictions to address the potential for self-dealing by CGMI and conflicts of interest that may arise in connection with CGMI's broker-dealer and investment banking businesses. CGMI has adopted various procedures to guard against insider trading that include an "Information Barrier" procedure, pursuant to which information known within one area of CGMI (e.g., investment banking) may not be distributed to other areas (e.g., investment advisory), and use of a restricted list and various other monitoring lists. These investment banking or other activities may from time to time compel CGMI, Overlay Manager or their affiliates to forgo trading in the securities of companies with which these relationships exist. This may adversely impact the investment performance of a client's account.

### ***Participation and Interest in Client Transactions***

CGMI and its affiliates may recommend securities in which they directly or indirectly have a financial interest and may buy and sell securities that are recommended to clients for purchase and sale, at the same time or at different times. They also may provide advice and take action in the performance of their duties to CGMI or clients that differs from advice given, or the timing and nature of action taken, for other clients' Financial Plans or CGMI's and its affiliates' own accounts. In addition, CGMI, its affiliates, employees, including Financial Advisors, may invest with any Investment Management Firm.

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### ***Personal Trading***

The Financial Plan delivered to a Client does not include specific security recommendations. As a general matter, certain representatives within CGMI are considered covered employees under the firm's Employee Trading Policy ("ETP"). Covered employees are subject to a number of restrictions including 1) a prohibition on trades for their personal accounts in securities for which they are in possession of material, non-public information; 2) a prohibition on trades for any accounts securities noted on the Firm's Restricted List and 3) a prohibition on trading in securities where new and material research has been published. Other restrictions exist for New Issue/Public offerings and trading of Citi shares.

Covered employees are further prohibited from engaging in market timing strategies with respect to mutual fund transactions in covered accounts.

Certain supervisory staff are responsible for reviewing all personal trading activity of their covered employees for indications of improper trading activity and insider trading.

## **Item 12. Brokerage Practices**

As part of the Financial Planning Program, CGMI does not execute trades for client accounts.

CGMI does not utilize client's agency commission dollars to purchase research and other services (i.e. soft dollars).

#### **Item 13. Review of Accounts**

As part of the Financial Planning program, the client receives and reviews an initial plan. This plan is reviewed by the financial advisor with the client to assist in the development of strategies designed to assist the client in meeting their goals. Appropriate changes to the plan may be implemented based upon client feedback, resulting in the issuance of a final plan. This final plan is not reviewed or updated unless requested by the client.

#### **Item 14. Client Referrals and Other Compensation**

The Financial Planning Program does not include client referrals. CGMI does not receive any compensation from third parties in connection with preparing financial plans.

#### **Item 15. Custody**

As part of the Financial Planning Program, CGMI does not have custody of client assets.

#### **Item 16. Investment Discretion**

As part of the Financial Planning Program, CGMI does not have investment discretion.

#### **Item 17. Voting Client Securities**

As part of the Financial Planning Program, CGMI does not have authority to vote client shares.

#### **Item 18. Financial Information**

CGMI does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. Therefore, CGMI has not included a balance sheet of its most recent fiscal year. CGMI is not aware of any financial condition that is reasonably likely to impair its ability meet its contractual commitments to clients, nor has CGMI been the subject of a bankruptcy petition at any time during the past ten years.