

## ACTIVE EUROPEAN EQUITIES – Q308

## Northern Trust Global Investments

## Global multi-asset investment manager

Worldwide AUM US\$652.4 billion\*

8th Largest Asset Manager by AUM

3rd Largest Institutional Index Manager†

Northern Trust Custody Assets  
US\$3.5 trillion\*

Northern Trust Employees 12,100\*

\*As of 30 September 2008  
†P&I as at 26 May 2008

Performance to 30/09/08	Pan Europe Composite	MSCI Pan Euro Index	Diff
Q3 2008	-19.05%	-20.77%	1.72%
2008 YTD	-29.25%	-30.60%	1.35%
1 Year	-28.23%	-30.93%	2.70%
3 Years	5.65%	2.51%	3.14%
Inception	5.14%	3.24%	1.90%

Performance to 30/09/08	Eurozone Composite	MSCI Euro Index	Diff
Q3 2008	-19.03%	-21.25%	2.22%
2008 YTD	-30.82%	-32.80%	1.98%
1 Year	-28.15%	-31.49%	3.34%
3 Years	6.93%	3.83%	3.10%
Inception	17.28%	14.38%	2.90%

Source: Northern Trust. Annualised for periods greater than one year - Performance results reflect the reinvestment of dividends and other earnings and are expressed in US dollars. Performance is preliminary and gross of fees and does not reflect the deduction of investment advisor complete fees. Client's return will be reduced by the advisory fees. Past performance does not guarantee future results.

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## Portfolio Manager Commentary

## PERFORMANCE REVIEW

The third quarter of 2008 a period of unprecedented volatility and macroeconomic factors remained the key focus for markets. The European Active Equity funds performed ahead of their benchmark indices over the period; the Pan Europe composite returned -19.05% for the third quarter, versus -20.77% for the Index, while the Eurozone composite saw third quarter returns of -19.03%, ahead of the Index return of -21.25%.

## MARKET REVIEW

It seems certain that the third quarter of 2008 will take its place in the annals of the financial markets; while some of the more grandiloquent commentators may have gone too far in declaring the death of the capitalist system, it is clear that the events of the past three months will have far reaching repercussions. July saw shares in the US government sponsored mortgage enterprises Freddie Mac and Fannie Mae plunge, requiring swift assistance from the US Congress, which did little to calm already prevalent fears of a major macroeconomic slowdown. Hopes that this had contained the crisis proved short lived, as September saw the financial system descend almost into meltdown. Regulators worldwide placed onerous restrictions on the short selling of financial shares, but this was insufficient to stem the tide. To name but a few previously "blue chip" casualties: Lehman Brothers declared bankruptcy, Merrill Lynch was acquired by Bank of America and AIG, the world's biggest insurer, was effectively nationalised, as the US regulators pumped in \$85 billion in an attempt to thaw the frozen credit markets.

In currency markets Sterling and the euro tumbled against the dollar as European governments bailed out banks (Belgium, the Netherlands and Luxembourg stepped in to rescue Fortis and the UK government nationalised mortgage lender Bradford and Bingley) and investors simply lost confidence in the region's financial institutions. By 16th September, fear had all but completely gridlocked the financial system; LIBOR jumped by 3.3%, as banks simply became unwilling to lend to each other. By the end of September, the US Treasury was forced to take what would previously have been unthinkable action and put forward a \$700 billion proposal to give broad power to the US Treasury Department to acquire troubled assets currently on the balance sheets of American financial institutions. This sparked a rally in stock markets worldwide; however, this proved to be short lived, as Congress declined to ratify the legislation in its original form. By the end of the quarter, the MSCI Europe Index stood nearly 10 per cent lower than at the beginning of July, with the future of the global financial system by no means assured.

Our underweight position in the Financials sector made a significant positive contribution to performance, as did our lower weight in Resources stocks towards the end of the quarter. Our holding in German software company SAP performed strongly during the quarter, as did European DIY retailer Kingfisher, which, despite a difficult backdrop for consumer stocks, performed ahead of market expectations. In addition, the Portfolio benefited from the relatively high cash position maintained over the quarter.

## STRATEGY

As fear and uncertainty have become perhaps the defining features of current financial markets, it is hard to conceive of an outlook for international equity markets in the near to medium term which is anything other than uncertain. While worldwide government intervention to support the financial system has clearly buttressed markets to some degree, recessionary fears remain foremost in the minds of investors. While some commentators are now highlighting the falling price of oil (currently some 30% below its highs) as a potential positive for equities, this is just as likely to be a sign of a slowdown in demand rather than any stimulus for growth, and slow underlying economic growth is, in turn, likely to restrict any significant or long lived rally in the equity markets. We continue, however, to believe that indiscriminate market sell offs can offer attractive longer term opportunities to position the portfolio in stocks whose growth prospects are currently significantly undervalued by the market.

Our strategy remains unchanged; we maintain a close focus on fundamentals and the risk/reward profile offered by individual stocks. Where the current market turbulence affords opportunities to take positions in attractively positioned, strong growth companies we look to make tactical additions to the portfolio, while using any market strength to take profits on strongly performing stocks and to reduce our exposure to sectors or stocks where we feel the risk profile has increased.

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## FUNDAMENTALS

40-70 stocks – Fully Invested

Positions at purchase overweighted by 1.5%

Automatic rebalancing at 2% over index weight

Diversified across sectors within 10% of index weight

Unconstrained by Country weight

Currencies unhedged; style 25% sector, 75% stock selection

## TOP FIVE HOLDINGS

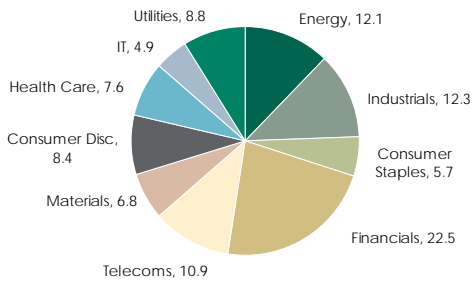
### Eurozone

Telefonica	5.6%
Total	5.5%
E.On	4.2%
BNP Paribas	4.0%
Allianz	3.6%

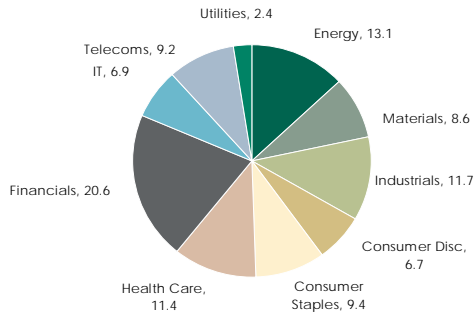
### Pan European

Royal Dutch Shell	4.0%
BP	3.9%
Nestle	3.7%
Roche	3.6%
HSBC	3.4%

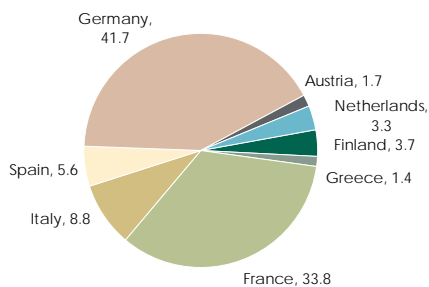
## Eurozone Sector Weights



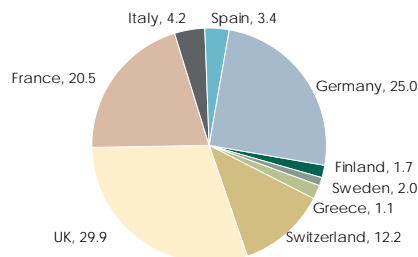
## Pan European Sector Weights



## Eurozone Country Analysis



## Pan European Country Analysis





## ACTIVE EUROPEAN EQUITIES

### Important Information

This financial promotion is directed to eligible counterparties and professional clients ONLY, it should not be relied upon by retail investors. Information in this report has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Past performance is no guarantee of future results. This information is provided for informational purposes only and does not constitute a recommendation for investment strategy or any product described herein [please remove this sentence]. Opinions expressed herein are subject to change at any time without notice. Issued by Northern Trust Global Investments Limited (NTGIL). NTGIL is authorised and regulated by the Financial Services Authority in the United Kingdom. Registered in England No. 03929218. Registered Office: 50 Bank Street, London E14 5NT. Northern Trust Global Investments (NTGI) comprises of The Northern Trust Company, Northern Trust Investments, N.A., Northern Trust Global Investments Limited, Northern Trust Global Investments Japan, K.K., and Northern Trust Global Advisors, Inc. and its subsidiaries.

#### 1) Definition of Firm:

Northern Trust Global Investments (NTGI) comprises Northern Trust Investments, N.A. (NTI), Northern Trust Global Investments Limited (NTGIL), Northern Trust Global Investments Japan, K.K. (NTGIJ), the investment advisor division of The Northern Trust Company (TNTC) and Northern Trust Global Advisors, Inc. (NTGA), and its subsidiaries to offer investment products and services to personal and institutional markets. As of 30/09/2008, NTGI had assets under management totalling \$652.4 billion. For purposes of compliance with the Global Investment Performance Standards (GIPS®), we have defined our firm as Northern Trust Global Investments Services (NTGIS, a subset of NTGI) that includes those investment products managed by NTI, NTGIL, NTGIJ, and TNTC that are distributed through national channels. As of 30/09/2008, Northern Trust Global Investment Services (NTGIS) had assets under management totalling \$416.1 billion.

#### 2) Description of Composite:

The composite consists of actively managed MSCI - Europe portfolios managed in the London office of NTGI Limited. The composites were created in September 2000 when Northern Trust hired an entire International Equity management team located in London. Financial leverage is not employed as a part of the overall investment strategy of this composite. Financial derivatives, in the form of futures contracts and options, may be utilised for the purposes of liquidity, market exposure, or investment opportunity. If fewer than 5 portfolios are in the composite for a full year, standard deviation is deemed not applicable. Accounts below the minimum size of \$5 million have been excluded from the composite.

#### 3) Fee Disclosure:

Performance results reflect the reinvestment of dividends and other earnings and are expressed in United States Dollars. Performance results are presented gross of investment management fees and gross of withholding taxes.

#### 4) GIPS Compliance Disclosure:

NTGIS has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). Prior to 1/1/93, all discretionary accounts may not have been included in a composite. NTGIS has been verified by an independent verifier on an annual basis from 1993 through 2004. A complete list and description of NTGIS's composites and additional information regarding policies for calculating and reporting returns are available upon request.