FIRST QUARTER 2011 SUMMARY

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NORTHERN TRUST HONORED BY INSTITUTIONAL INVESTOR MAGAZINE FOR LEADERSHIP IN EQUITY INDEXING

Northern Trust's Global Index Management team has been recognized for market leadership and excellence by *Institutional Investor* magazine's U.S. Investment Management Awards. Northern Trust won the "Equity Indexers (U.S.)" category in the second annual awards, which are given to U.S. managers that stand out in the eyes of the investor community for their exceptional performance, risk management and service.

Institutional Investor followed a two-part process to select winners of its U.S. Investment Management Awards. A selection committee created a list of top money managers following an analysis of strategies and sectors across a variety of metrics, including 2010 returns, asset size, three-year annualized returns, standard deviations and other risk ratings. More than 1,000 endowments, foundations, pension funds and other institutional investors were then surveyed to choose the top three managers in multiple categories, and the poll results were tabulated to determine the winning firm in each investment category.

EMERGING & FRONTIER MARKET PERFORMANCE

Political and civil unrest continued spreading throughout the Middle East and North Africa after the fall of the Tunisian government on January 14. For the first quarter of 2011, emerging market stocks continued to underperform developed-market stocks, driven by the increased political risks and inflationary pressures.

During periods of economic turbulence, institutional investors typically examine their exposure to these markets and review how benchmark providers incorporate geopolitical risks into their index construction. As we focus our attention on the Middle East and North Africa (MENA) countries – and as the market pays particular attention to recent events in Egypt – it is important to note that Egypt is classified as an emerging market country. However, while the recent events in Egypt caused its stock market to tumble 24% during the first quarter of 2011, the relatively small weight (0.34%) in emerging markets did not have significant influence on the returns of the broader asset class. The following table highlights the countries in the MENA region and their respective weights in each benchmark.

PERFORMANCE AS OF MARCH 31, 2011

	YTD
MSCI World	4.80%
MSCI Emerging Markets	2.05%
S&P Extended Frontier 150	(2.76%)

Source: Northern Trust

The highest growth countries with the largest market caps are not always countries that outperform.

Typically, frontier market benchmarks have greater exposure to MENA countries; however, not all benchmarks are identical. Some index providers attempt to mitigate some of the risks associated with highly concentrated regional exposure by implementing country caps to offer regional balance. There are significant differences across global index providers with respect to country and regional composition. The major global index providers – MSCI, Standard & Poors (S&P) and FTSE – use a number of quantitative and qualitative factors to classify countries. The S&P Extended Frontier 150 Index is a subset of the S&P Frontier BMI Index and provides coverage of 25 countries and 150 of the largest, most liquid equities. Unlike the MSCI Frontier Markets Index, the S&P Extended Frontier 150 Index caps the weight of each country at 15%, limiting concentrations in regions such as the Middle East and providing more diversification. Within the MSCI Frontier Market index, the top three MENA countries account for nearly 51% of the index. The methodology of the S&P index yields a regional weight of 42.87% to MENA.

MIDDLE EAST + NORTH AFRICAN COUNTRIES (MENA)

Country	MSCI Emerging Markets	S&P Extended Frontier 150
Egypt	0.35%	—
Morocco	0.16%	—
Turkey*	1.39%	—
Bahrain	—	0.58%
Jordan	—	2.78%
Kuwait	—	14.51%
Lebanon	—	3.13%
Oman	—	1.97%
Qatar	—	13.19%
United Arab Emirates	—	6.71%

** Some define as MENAS*

Source: MSCI

In the first quarter of 2011, much of the MENA region suffered, posting mostly negative returns for the period. While the strong performance of the Eastern European countries helped to offset the weak performance of the MENA countries, the different frontier market benchmarks were affected by various magnitudes as a result of their methodology and weight of the MENA region. Countries with strong performance in Eastern Europe included Bulgaria, Romania and the Ukraine, which were up 36%, 32% and 21%, respectively. The largest detractors within MENA were Kenya, Jordan and Oman with -11%, -8% and -10%, respectively.

Diversification is crucial within emerging and frontier markets. Surprisingly, the highest growth countries with the largest market capitalizations are not always the countries that outperform. Therefore, we believe having a diversified portfolio that includes large-, mid- and small-capitalization emerging and frontier market securities may be crucial for investors to consider. More concentrated emerging markets portfolios may reduce the diversification benefits and increase volatility.

Making accurate country-specific allocation can be difficult in emerging and frontier markets, as they tend to be rotational at the country level. Top country performers in one year can become the bottom performers the following year. In emerging markets, for example, Chile and Peru were top performers in 2010 with returns of 44% and 53%, respectively. These same countries were some of the worst performers in the first quarter of 2011, with Chile returning -10.0% and Peru -15.0%. Within frontier markets, Argentina returned 77% and Sri Lanka returned 74%, yet both top-performing countries in 2010 finished at the bottom half for the first quarter of 2011. Argentina had a -12% return, and Sri Lanka had a return of -2%. (All returns are in U.S. dollars.)

Geopolitical Risk – Will Egypt be Demoted?

As it pertains to Egypt, global indexes such as MSCI, FTSE, S&P, Russell and Dow Jones all classify the country as an emerging market. When reviewing the major qualitative factors for market classification, index providers tend to agree on some aspects. However, their interpretations of how to measure country-specific particulars can vary based on:

- Level of economic development;
- Perceived political risk;
- Measurement of a market's depth and breadth;
- Assessment of operational efficiency and accessibility;
- Qualification of the market and regulatory environment; and
- Terms regarding custody and settlement.

The increased political turmoil in Egypt after President Hosni Mubarak resigned emphasizes the importance of understanding how index providers incorporate geo-political risk into their index construction and methodology. The table below examines the geo-political factor and how/if index providers incorporate it into the methodology.

Many U.S investors use MSCI as their policy benchmark for emerging markets, so we will take a deeper look at how they are evaluating Egypt.

POLITICAL RISK IN GLOBAL INDEX METHODOLOGY

Index	Geo-political Risk Factors in Country Classification Framework	Client Consultation for Unusual Events?
MSCI	No	Yes
FTSE	No	No
S&P	Yes	Yes
Russell	Yes	Yes
Dow Jones	No	No

Source: Credit Suisse First Boston

Egypt's political issues alone may not ultimately drive the country's demotion from the MSCI Emerging Market Index. However, the intense attention on these developments, coupled with the closing of the Egyptian exchange, raised concerns. MSCI previously announced that after a stock market has been closed for more than 40 consecutive days, it would reassess the situation and propose removing the country from its indexes. Mindful of MSCI's comments, the Egyptian exchange reopened just before the deadline and plummeted more than 8%. But trading halted due to new measures the government had enacted to help increase confidence and limit subsequent selling, especially from foreign investors. Under those circuit-breakers, trading would be suspended if Egypt's local market index, the EGX100, fell 5% and would halt at current levels for the duration of the session if it posted a 10% loss. The government looked to the country's residents to invest in the market, either through mutual funds or shares, repeatedly saying the country's economic fundamentals were sound.

We continue to emphasize the importance of having a diversified exposure to emerging and frontier markets. An index-based approach may provide efficient, low-cost diversified emerging market beta exposure. Emerging and frontier markets may face heightened geo-political risks, making it critical to use an experienced index manager knowledgeable about how political conditions can affect market accessibility and about the operational and regulatory environment.

RUSSELL INTRODUCES NEW APPROACH TO EQUAL WEIGHTED INDEXES

Alternatively weighted indexes have received a fair amount of interest in the last few years. Unlike traditional indexes that weight securities by market capitalization, these indexes utilize an alternative weighting scheme to weight the underlying securities.

One of the simplest forms of an alternatively weighted strategy is the equal weighted index, where every constituent is weighted equally. Launched in 2003, S&P 500 Equal Weight Index (EWI)

Traditional market cap indexes lead to higher market exposure to larger names, and some investors may not be comfortable with such concentration.

is one of the more widely known equally weighted indexes. The S&P 500 EWI assigns each of its 500 constituents a weight of 0.20% (1/500). In September 2010, S&P launched the S&P 400 EWI and S&P 600 EWI to meet investors' increased demand for this index. This contrasts with traditional market cap indexes, which lead to a higher exposure to larger names based on their market capitalization, and some investors may not be comfortable with such concentration. For example, the top 10 names of the S&P 500 represent almost 19% of the index while the top 10 names of the S&P 500 EWI represent just 2%. In addition, the equal-weight nature of the index leads to identical emphasis on each market capitalization range of the index, preventing larger capitalization names from driving the return of the overall index performance. Evidence also suggests that equal weighted indexes add value through mean reversion. During a rebalance, an equal weighted strategy has to sell the stocks that did well and buy more of the ones that under-performed in order to bring security weights back to equal weighting. In keeping with the idea of mean reversion, the rebalance would capture the gains of the winning stocks before they fell, and would also buy losing stocks at depressed prices before a possible upturn. As it would be very costly for an investment manager to rebalance an index daily, the S&P EWI is rebalanced on a quarterly basis, in conjunction with the traditional market capitalization S&P indexes.

In the fourth quarter of 2010, Russell Indexes introduced its version of an equal weighted product but chose a different methodology than S&P. According to Russell, assigning the same weight to each index constituent leads to a sector bias, as sector weights are solely determined by the number of securities in each sector. Therefore, sectors that hold more names will have a higher weight than sectors with fewer constituents. Russell's solution to this sector bias is to first equally weight each of the nine Russell Global Sectors in the index, so each sector is given an equal weight of 11.1% (1/9).Then securities within each sector are equally weighted such that the sum of their combined weights equals 11.1% of the index. This allows for sectors with fewer names to have the same weight as sectors with many more names, which provides additional diversification benefits and avoids a tilt toward sectors with a large number of names. As a result of this methodology, securities that belong to a sector with a large number of names will have lower individual weights than securities that belong to a sector with lower number of names. As an example, at the end of 2010, there were 203 securities in the financial services sector (the largest in number of names) and each had a weight of 0.05%. On the other hand, just 50 names were part of the consumer staples sectors (the smallest in number of names) and each had a weight of 0.22%.

CURRENT EQUITY OFFERINGS FOR EQUAL WEIGHTED STRATEGIES FROM S&P AND RUSSELL

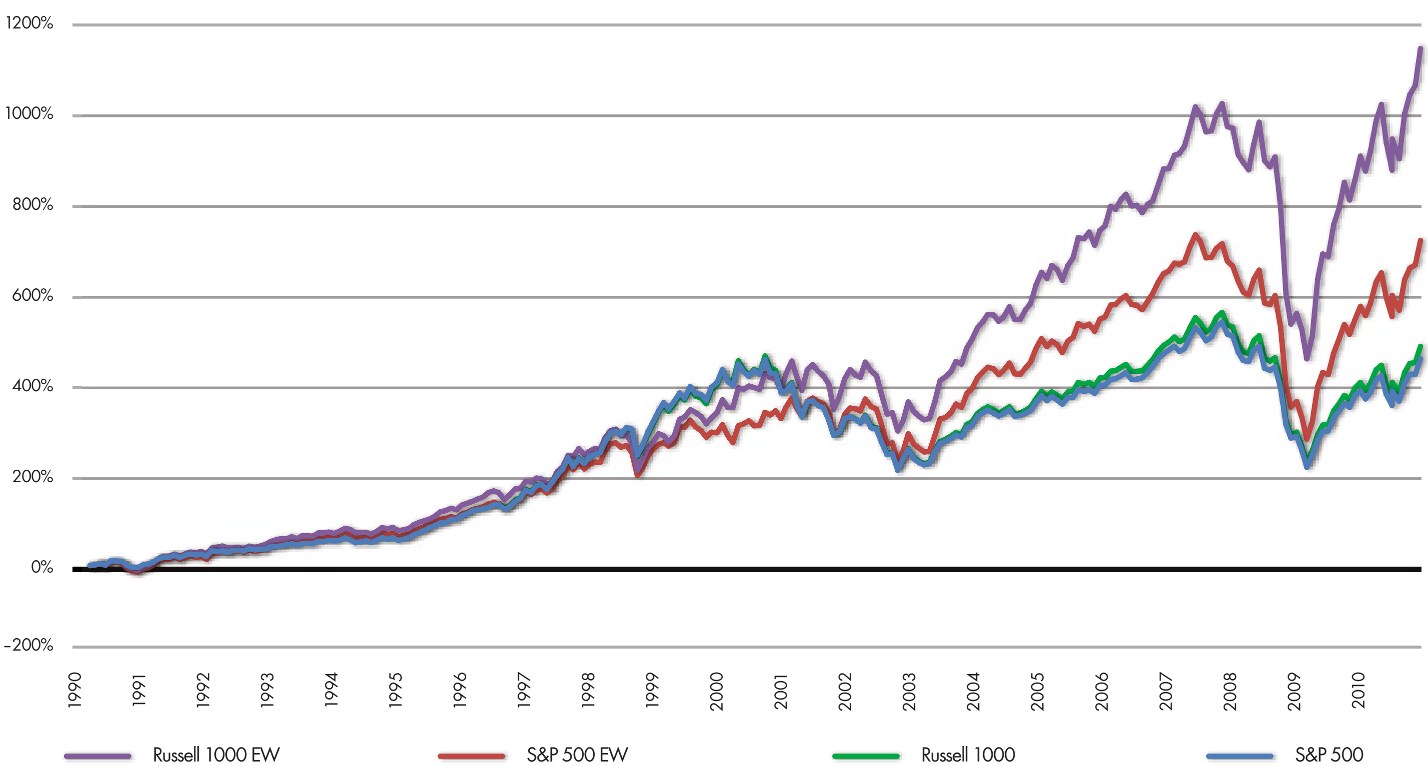
Standard & Poor's Indexes	Russell Indexes
S&P 500 Equal Weighted Index	Russell 1000 Equal Weight
S&P MidCap 400 Equal Weighted Index	Russell Midcap Equal Weight
S&P SmallCap 600 Equal Weighted Index	Russell 2000 Equal Weight
S&P 100 Equal Weighted Index	Russell BRIC Equal Weight
S&P/TSX 60 (Canada) Equal Weight	Russell Greater China Large Cap Equal Weight
S&P/TSX Equal Weight Diversified Banks Index	
S&P/TSX Equal Weight Global Base Metals	
S&P/TSX Equal Weight Oil & Gas Index	

Source: Northern Trust

Turnover, however, is higher for equal weighted strategies than their capitalization weighted counterparts. From the beginning of 2007 through the third quarter of 2010, quarterly turnover was 7.68% for the S&P 500 EWI and 9.56% for the Russell 1000 Equal Weighted Index (EWI). Periods of high volatility tend to generate higher turnover since securities' weights then tend to fluctuate more widely, requiring a larger rebalance to bring them back to equal weight. As a comparison, over the last three years, yearly turnover for S&P 500 and Russell 100 were just 4% and 4.7%, respectively.

Both S&P and Russell have published historical returns for their equally weighted products which illustrate that over time, equal weighted indexes have tended to outperform their market cap weighted counterparts. This is seen in Figure 1, below. In the late '90s, market capitalization weighted indexes outperformed equal weighted strategies. As Russell notes, this period was characterized by strong performance by large capitalization names and technology names, both with large weights in the market capitalization indexes. Equal weighted strategies did not capitalize on this rally, since the best performing names were regularly sold out and brought back to equal weights, thus missing the compounding effect. However, equal weighted strategies regained the lead when the market dropped after 2000 and as the financial crisis unfolded toward the end of 2008. Evidence suggests that as larger capitalization names fell drastically during these times, the increased emphasis on the smaller names in an equal weighted strategy helped to offset some of those losses.

FIGURE 1: CUMULATIVE RETURNS JAN 1990 - DEC 2010 (20 YEARS)



Source: Northern Trust, Russell, Standard & Poor's

ANNUALIZED RETURNS AS OF 12/31/2010

Index	3 Years	5 Years	10 Years
S&P 500	–2.86%	2.29	1.41%
S&P 500 EWI	2.44	4.80	6.26
Russell 1000	–2.37	2.59	1.83
Russell 1000 EWI	5.27	7.94	9.13

Source: Northern Trust, Russell, Standard & Poor's

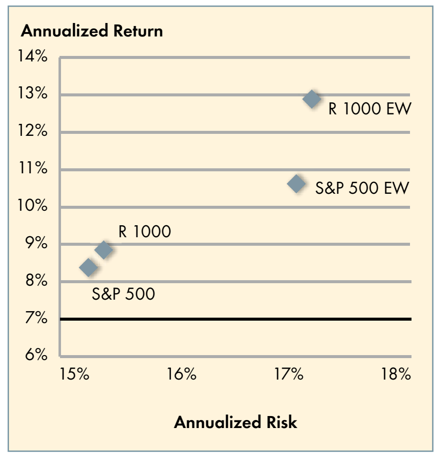
As shown in the table to the left, the Russell 1000 EWI further outperformed the S&P 500 EWI over the last 10 year period primarily because of Russell's specialized sector equal weighting approach plus the Russell 1000 exposure to more equally weighted midcap names than the S&P 500 index.

The outperformance of equal weighted strategies comes with an increase in risk versus the market cap indexes (Figure 2). Annualized data of the risk and return figures show how the added return from equal weighted indexes of about 2% comes at only an increase of 1% – 2% in risk as measured by the standard deviation of monthly returns.

The outperformance of equal weighted strategies comes with an increased risk versus the market cap indexes.

The table on page 7 summarizes the differences in index construction between S&P and Russell Equal Weighted strategies.

FIGURE 2: RISK RETURN CHARACTERISTICS JAN 1990 – DEC 2010



Source: Northern Trust, Russell, Standard & Poor's

MSCI CONTRACTS MOVE TO NYSE LIFFE; HAVE IMPLICATIONS FOR SYNTHETIC PORTFOLIOS

Over the last several years, institutional investors have increased their exposure to international markets. The increase in demand for passive or beta-type products has led to innovation and development of various products that investors continue to evaluate. Outside of traditional index funds or exchange-traded funds, there has been increased demand for synthetic beta products, which are overlay strategies that utilize futures and/or derivatives to replicate both U.S. and international equity indexes.

As a result of increasing demand for international exposure, in September 2009 the New York Stock Exchange (NYSE) London International Financial Futures and Options Exchange (Liffe) launched equity index futures products based on MSCI EAFE and Emerging Markets indexes. As this announcement created a dual listing of the contracts on the Chicago Mercantile Exchange (CME) and NYSE Liffe, it was not surprising when on July 12, 2010, MSCI announced it would not renew its license with the CME and the June 2011 contracts would be the last on CME. As this bulletin prints, the June Liffe contracts comprise one-third of the liquidity, though we believe this should increase as we near expiration in June. During the next couple of months, as liquidity is spread across multiple exchanges, investors and traders need to be especially cognizant of the changing market dynamics and source liquidity accordingly. As the contracts will have sole listing on NYSE Liffe thereafter, it will be important to monitor the acceptance of the Liffe contracts by users of the de-listed CME contracts, as this should be a key driver for how much liquidity is available on Liffe.

INDEX CONSTRUCTION DIFFERENCE BETWEEN S&P AND RUSSELL EWI STRATEGIES

Action	S&P EWI	Russell 1000 EWI
Rebalance schedule	Quarterly 3rd Friday in Mar, June, Sep, Dec	Quarterly Mar, Sep, Dec month-end + Russell Reconstitution in June
Rebalance weighting	All names given a weight of 0.20%	Each of Russell's 9 sectors is given a weight of 11.1%. Each sector's constituents are then weighted equally within each sector.
Sector Classifications	GICS - Global Industry Classification Standard	RGS - Russell Global Sectors
Constituent adds/deletes due to corp. actions	Name is added with the weight of the name it is replacing.	Names are not added until Russell reconstitution in June. Names taken over are deleted without replacement.
Share level changes between rebalances	None	Only if one R1000 member buys out another R1000 member. Acquiring company's weight is increased by the weight of the target company.
Spin-offs	Parent company's weight does not change. If spin-off is added to index, it is given the weight of the name it is replacing.	Spin-off is added to index, and parent company's weight is split with spin-off appropriately.
Liquidity Screening	None	Yes, applied at quarterly reweighting.

Source: Northern Trust, Russell, Standard & Poor's

Synthetic Replication for International Strategies

Multiple factors such as liquidity, bid/offer spread and tracking error drive the decision as to which futures contracts are optimal for achieving exposure in international markets. Using MSCI EAFE as an example, we will highlight the tradeoffs between utilizing the E-mini MSCI EAFE futures and a basket of Commodity Futures Trading Commission (CFTC)-approved single-country and Euro-region index futures.

The MSCI EAFE index includes 22 countries; however, CFTC contracts with ample liquidity are not available for every market. As such, a basket would typically consist of various listed futures contracts based on indexes such as DJ Euro Stoxx 50, FTSE 100, Topix, S&P/ASX 200 and the Hang Seng. While various baskets can be constructed to exhibit high correlation to the underlying MSCI EAFE index, these synthetic baskets exhibit greater tracking error to the index when compared to the E-mini MSCI EAFE futures contract. The trade off is that the futures in the optimized basket have better liquidity compared to the E-mini EAFE futures (see Chart 1). Note the significant difference in open interest between the E-mini contracts and the single country futures.

CHART 1: EQUITY FUTURE CONTRACTS OPEN INTEREST IN DOLLARS

Futures Contract	Open Interest in US Dollars
MSCI Emerging (e-mini)	$1,626,293,700
MSCI EAFE (e-mini)	$2,362,927,800
DJ Euro Stoxx	$80,843,087,100
TOPIX (Japan)	$15,490,483,200
FTSE 100 (UK)	$52,562,745,940
SPI 200 (Australia)	$23,906,256,900
Swiss Market LX	$15,499,247,820

Source: Northern Trust *As of March 16, 2011*

The individual country futures included in the basket are denominated in their local currency. Utilizing the basket, investors assume an additional set of transaction costs surrounding the implementation of currency forwards or futures in order to match the return of the MSCI EAFE index (which is denominated in U.S dollars). The E-mini MSCI EAFE futures already have the appropriate currency exposure, therefore eliminating the need to execute currency forwards to match the benchmark. The result of a total cost analysis is a tradeoff between tracking error, liquidity and market impact when looking at the total costs of buying the futures in an optimized basket compared to the E-mini MSCI EAFE futures.

The key point for investors using CFTC-approved futures to fulfill international benchmark exposures is to be aware of all the events that can affect the liquidity and tracking error of synthetic replication strategies.

Tracking error in either the E-mini MSCI EAFE futures or optimized baskets positions arises from several factors. One key factor is roll costs. Roll costs are incurred by selling a futures contract about to expire while buying the new front month future, and when the basis of this switch differs from the fair value basis which is a function of interest rates and expected dividends. Because the price of the underlying index is the same in both contracts, the only difference is the implied London Interbank Offered Rate (LIBOR) rate. The less liquid the contract, the higher the implied LIBOR rate or cost to roll the futures forward. The majority of the tracking error in the E-mini MSCI EAFE futures is attributed to the roll costs as a function of liquidity in the contract. The optimized basket will exhibit lower tracking error than the E-mini if compared only to the roll cost. However, the optimized basket represents a select number of countries in the underlying benchmark, which translates to additional tracking error. The optimized basket tends to have a slightly higher market cap as well, as the basket consists of index futures from the larger countries, which tend to offer CFTC-approved futures contracts.

COST COMPARISON: E-MINI EAFE VS. OPTIMIZED BASKET

	E-mini EAFE future	Basket of futures
Cost-Roll	Higher	Lower
Liquidity	Lower	Higher
Tracking	Lower	Higher
Currency	Lower	Higher

For illustrative purposes only

The key point for investors using CFTC-approved futures to fulfill international benchmark exposures is to be aware of all the events that can affect the liquidity and tracking error of synthetic replication strategies. In practice, either method can provide effective exposure to international markets if they are implemented and monitored properly. Investors can combine the tradeoffs with their risk tolerance to arrive at an optimal decision for synthetic replication of global benchmark strategies.

FIRST QUARTER 2011 MARKET SUMMARY AS OF MARCH 31, 2011

	U.S. Dollar Return Net Total Return %	
	QTD	Trailing 1 Year
U.S. Equities		
S&P 500	5.92	15.65
S&P 400	9.36	26.95
S&P 600	7.71	25.27
Russell 1000	6.24	16.69
Russell 2000	7.94	25.79
Russell 3000	6.38	17.41
Russell 3000 Growth	6.30	19.24
Russell 3000 Value	6.47	15.60
Dow Jones Total Market Index	6.37	17.73
Global Equities		
MSCI World	4.80	13.45
MSCI EAFE	3.36	10.42
MSCI Europe ex. UK	7.80	12.16
MSCI United Kingdom	3.78	13.55
MSCI Asia Pacific ex. Japan	2.76	16.53
MSCI Japan	(4.93)	1.45
MSCI Emerging Markets	2.05	18.46
MSCI ACWI	4.42	14.08
MSCI ACWI ex. US	3.41	13.15
MSCI ACWI ex. US IMI	3.22	14.07
MSCI Developed Market ex. US Small Cap	3.29	22.00
MSCI Emerging Market Small Cap	(2.72)	17.74
S&P Frontier Market Extended 150	(2.76)	5.86
Alternatives Benchmarks		
FTSE EPRA/NAREIT Global Index	1.91	17.63
Dow Jones-UBS Commodity Index	4.45	28.49
U.S. Fixed Income		
BC Aggregate	0.42	5.12
BC Govt/Credit	0.28	5.26
BC Govt/Credit Intermediate	0.34	4.63
BC High Yield 2% Cap	3.89	14.26
BC TIPS	2.08	7.91
Global Fixed Income		
BC Global Aggregate	1.24	7.15
BC Global Emerging Markets	2.40	9.64
BC 1- to 3-Month T-Bills	0.038	0.156

Source: Northern Trust, MSCI, S&P, Dow Jones, Barclays

NORTHERN TRUST GLOBAL INVESTMENTS – GLOBAL INDEX MANAGEMENT

All of us at Northern Trust Global Investments look forward to working with you to effectively manage the index rebalances and benchmark changes indicated above. We also welcome discussions on general benchmark information and would be delighted to share the details of our research on each index series.

For more information, please contact the Global Index Management team at: global_index_strategy@ntrs.com.

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