

INVESTMENT MANAGER SURVEY REPORT FIRST QUARTER 2009

MANAGERS SHOW CAUTIOUS STARTS OF POSITIVE SHIFT IN SENTIMENT

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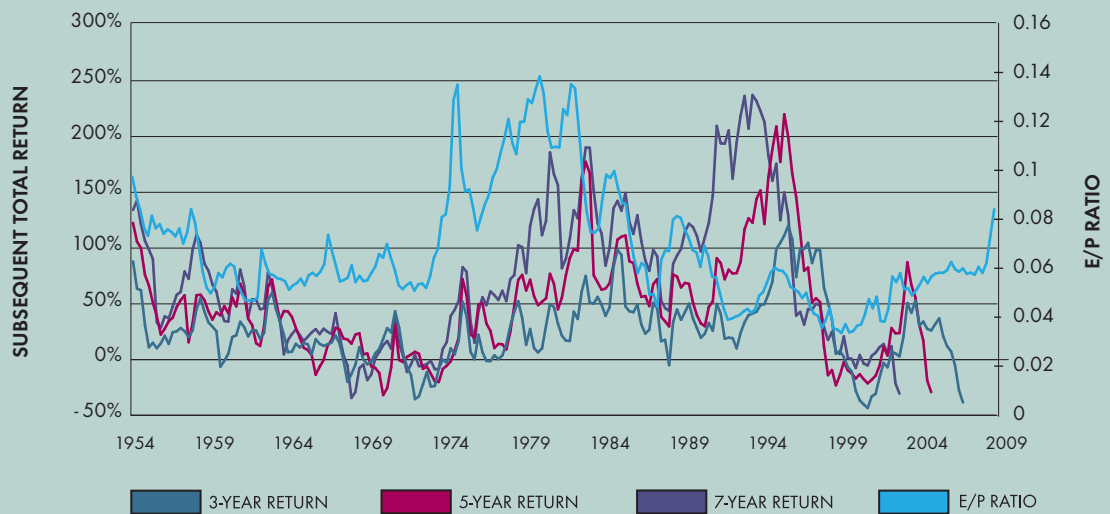
The Northern Trust Global Advisors (NTGA) first-quarter 2009 investment manager survey found the beginnings of positive shifts in manager sentiment. From opinions on market valuation to actual cash positions and attitudes toward risk, NTGA's managers generally see a market full of opportunity. However, managers are quick to emphasize that these opportunities are for the long-term investor willing and able to ride out the market's volatility. Even with the possibility of markets bottoming, managers remain cautious with their near-term earnings and economic outlook.

FIRST QUARTER 2009 MANAGER SURVEY

The first-quarter 2009 investment manager survey found the strongest signs in the past year that managers have begun putting their umbrellas away in anticipation of sunnier days ahead. Responses and commentary from managers point to their belief in, if not an outright market rebound, at least the near bottoming of the market. From opinions on market valuation to actual cash positions and attitudes toward risk, NTGA's managers generally see a market full of opportunity.

Typical commentaries from managers cited the unprecedented opportunities for long-term investors. However, while there may be opportunities in today's markets, our analysis of historical returns shows the opportunities are *not* unprecedented. To examine this "long-term opportunity" notion, we looked at the earnings-to-price (E/P) ratio over the past 50 years and the ensuing returns three, five, and seven years later. We used earnings to scale prices so that prices are

S&P 500 E/P RATIO AND SUBSEQUENT 3-, 5-, AND 7-YEAR TOTAL RETURNS



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comparable over time. The three-, five-, and seven-year performance results superimposed over the E/P chart show what total, un-annualized returns were in the subsequent respective periods.

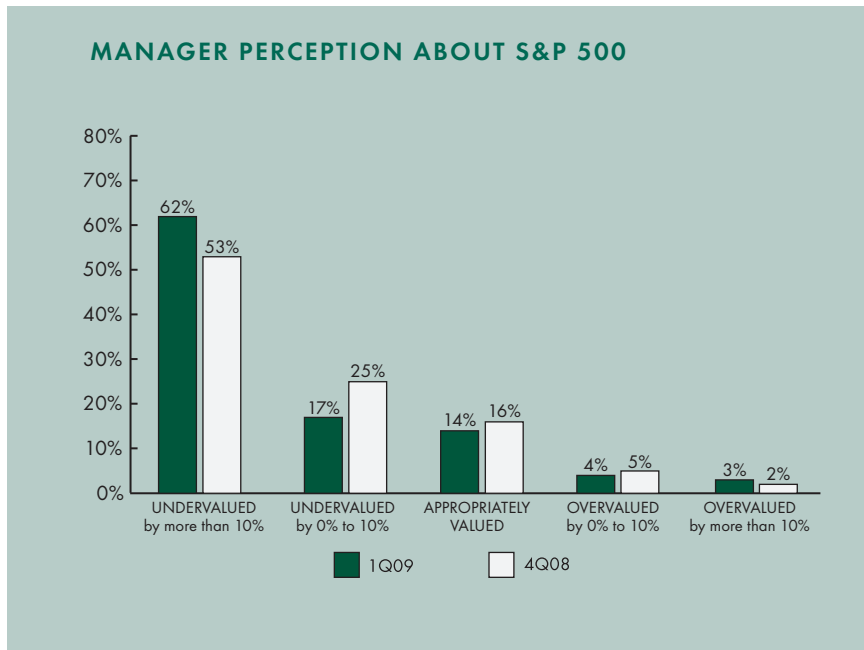
The last time E/P ratios were at today levels – around 1984 – the markets produced total, un-annualized returns of 47% in the next three-year period, 68% in the next five-year period and 100% in the next seven-year period. We found similar market rebounds in previous periods, when E/P ratios were at levels comparable to today's levels.

Of course, the present and future may not be like the past, and the depressed E/P ratio may reflect a permanent state of the economy. However, our managers generally do not seem to share this view and have been positioning their portfolios accordingly. At the margins, managers have begun decreasing their cash positions and participating more fully in the markets. Survey results confirm indications that more managers are willing to assume risk compared to three months ago.

In the midst of positioning their portfolios for opportunity, managers remain cautious about the near term, as reflected in their generally negative outlook on short-term corporate earnings and macroeconomic growth. The twin notions of market opportunity and poor near-term growth are not necessarily mutually exclusive, as market rebounds generally precede economic rebounds.

There is always the tendency for the final days of the quarter to define the view for the entire quarter, and the 20% market rally in the last weeks of March certainly may have affected managers' outlooks as they took the NTGA survey. The survey was available to managers from March 9 through March 20, after the Standard & Poor's (S&P) 500 index had advanced by almost 15%.

Our confidence in the survey's results stems largely from knowing that the vast majority of managers answered our survey within the first two days of receiving their invitation on March 9. Thus, the bullish sentiment expressed by managers in their early March responses seems to have presaged the market rally that took place in the last three weeks of the quarter.



The following pages cover in detail the responses from our managers and the story we believe the numbers tell: Managers are finding opportunities in many areas of the market and are acting on them in the portfolios they manage for our clients. Though managers shy away from predicting a sunny near-term forecast, they're readying their strategies for better days ahead.

MARKET VALUATION

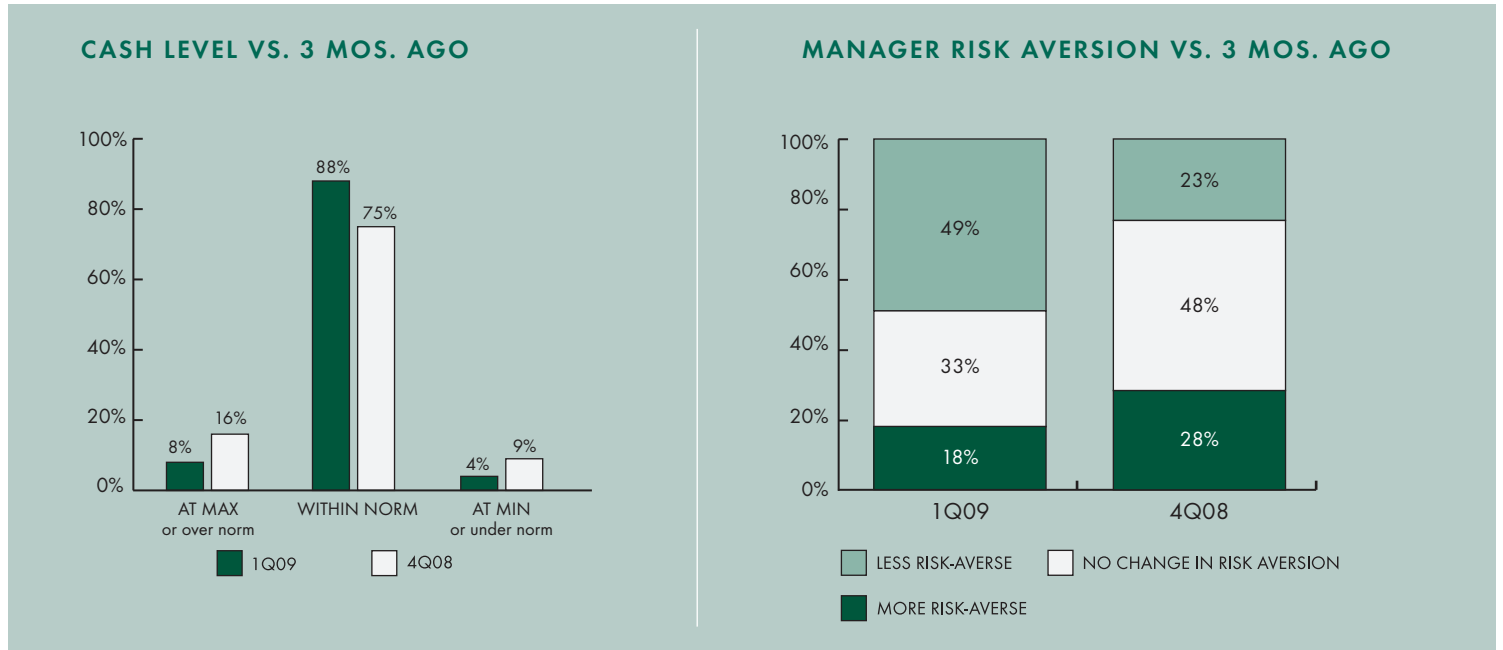
The percentage of managers who believe the market is undervalued held steady at a little under 80% from fourth quarter 2008 to first quarter 2009. However, the survey revealed a notable shift in sentiment regarding the magnitude of the undervaluation. From the previous quarter's survey to the current survey, managers believing the S&P 500 was undervalued by more than 10% grew from 53% to 62% of all respondents.

CASH HOLDINGS

Managers have backed up their belief in undervalued markets by shifting from cash to securities. The percent of managers characterizing their cash holdings as at the maximum or over their normal cash holdings has decreased to 8% in the first quarter of 2009 from 16% in the fourth quarter 2008. While the vast majority of managers remain within their normal cash holding range, this shift represents a notable change at the margins.

RISK AVERSION

Confirming indications that managers are more willing to assume risk and participate more fully in the markets, 82% of managers said they were either less risk averse or had no change in their risk aversion in the last three months. In particular, the percentage of managers expressing less risk aversion jumped to 49% in the current survey, compared to just 23% in the previous survey.



RANKED INVESTMENT OPPORTUNITIES

When managers ranked potential investments from a broad array of opportunities, U.S. Treasuries and other cash equivalents fell precipitously from the fourth quarter 2008 responses to the first quarter 2009 responses.

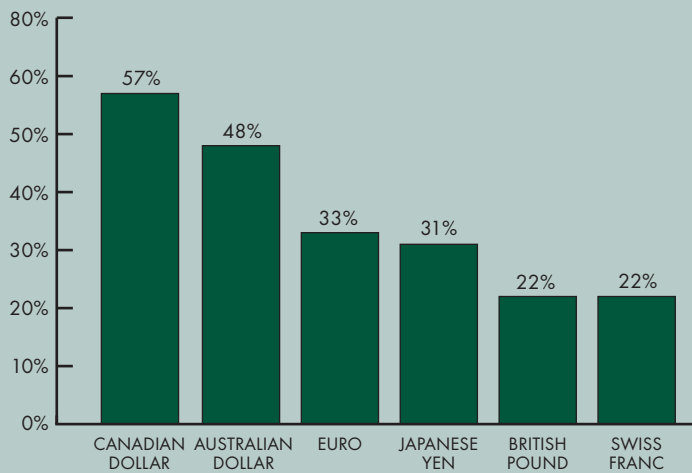
Managers considered the U.S. equity market as the ripest for investing, followed closely by the international developed and emerging equity markets. Commodities followed closely behind emerging markets, consistent with anecdotal comments from managers and their belief in the continued strong demand for commodities from emerging (i.e., Chinese) markets.

1Q09 RANK	INVESTMENT	RANK RELATIVE TO 4Q08
1	U.S. small-cap equity	↑ Higher
2	U.S. large-cap equity	↓ Lower
3	MSCI EAFE	↔ No change
4	MSCI emerging markets	↔ No change
5	Commodities	↑ Higher
6	BC aggregate bond	↓ Lower
7	Government TIPS	(New for 1Q09)
8	Non-U.S. bonds	↓ Lower
9	Emerging market debt	↑ Higher
10	Private equity	(New for 1Q09)
11	Other	↑ Higher
12	U.S. Treasury (cash)	↓ Lower
13	Hedge funds	(New for 1Q09)
14	Private real estate	(New for 1Q09)

CURRENCY EXPECTATIONS

The commodity theme also was manifested when managers picked the currencies they expected to appreciate relative to the U.S. dollar. The number of managers picking the Canadian dollar and Australian dollar, two currencies strongly correlated with commodity prices, is consistent with rising commodity prices from continued strong demand.

CURRENCIES EXPECTED TO APPRECIATE VS. U.S. DOLLAR IN THE NEXT 6 MOS. *



* Percentages do not add to 100%, as respondents were allowed to pick multiple currencies.

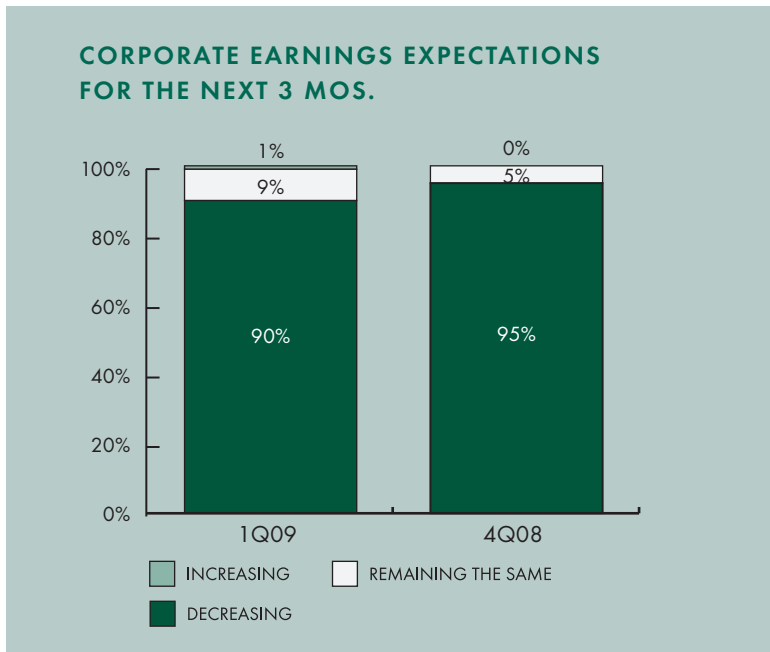
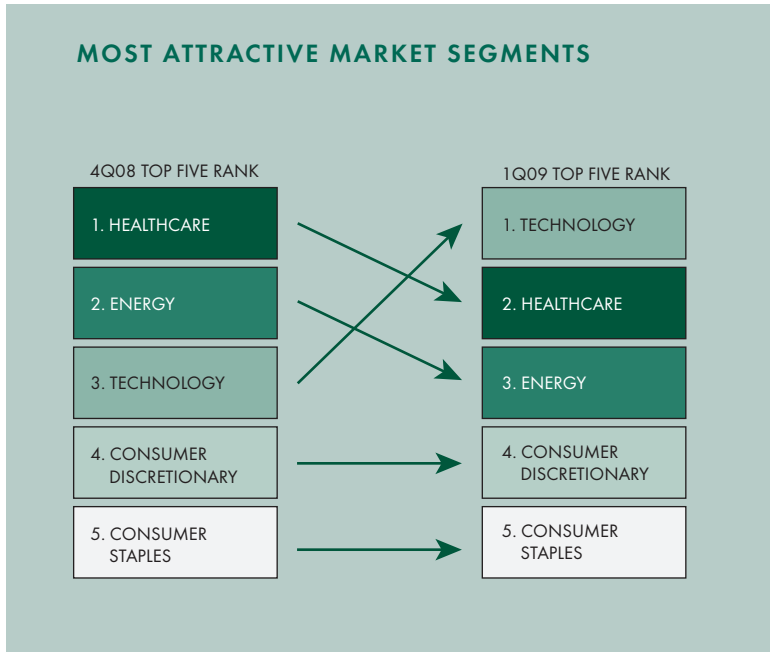
MOST ATTRACTIVE MARKET SEGMENTS

When managers cited their top most-attractive market segments, their answers remained fairly stable from the previous quarter's survey to the current quarter's survey. This stability should not be surprising, given NTGA's investment philosophy and bias toward choosing long-term investment managers.

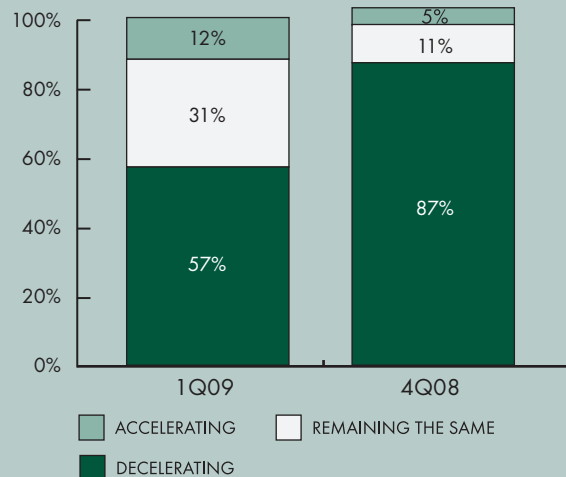
CORPORATE EARNINGS

On average, managers may be positioning their portfolios for future opportunities, but their relatively negative sentiment regarding corporate earnings suggests they do not expect a near-term rebound. Of the managers surveyed, 90% believe that corporate earnings will continue to decrease in the coming quarter.

In a change from the previous quarter, when no manager expected increasing earnings, a few managers predicted increasing corporate earnings in the next three months.



GLOBAL GDP EXPECTATIONS FOR THE NEXT 6 MOS.



GLOBAL GROSS DOMESTIC PRODUCT

Though still a majority of respondents, the percentage of managers expecting global gross domestic product (GDP) to fall in the next six months fell to 57% from 87% in the previous survey. The expectation for continued deceleration in global growth does not necessarily conflict with the investment opportunities managers see. Financial market recoveries tend to precede macroeconomic recoveries due, in part, to the lag in the collection and reporting of macroeconomic data.

MANAGER PERSPECTIVES

The following represent a selection of quotes from managers responding to this quarter's survey:

While we have become somewhat less optimistic about the prospects for a strong, traditional market recovery in 2009, we are inclined to agree with Warren Buffett, who in his recently released annual letter said while he was cer-

tain that the economy would be "in shambles in 2009," that "does not tell us whether the stock market will rise or fall."

In our view, there will eventually be an economic recovery (fueled by the extraordinary levels of central bank intervention and government stimulus) preceded by a stock market recovery, both on an unpredictable timetable. However, rather than a traditional "V-shaped" recovery, we think that we are more likely to see several short-term market recoveries followed by market downdrafts. An example is what we observed from November 20 of last year through the end of February. The recovery road will probably be rocky over the course of the year as the market digests ongoing bad news about employment, housing, consumer spending, manufacturing, etc. But eventually, the fiscal stimulus program and accommodations will have an ameliorative impact.

**– Eric McKissack,
chief executive officer,
Channing Capital Management**

Near term, falling employment will depress markets and will make for good opportunities to add risk to portfolios. Real interest rates are too high given a very slow growth economy – so we like TIPS – and nominal interest rates should decline abroad as the slowdown is more fully reflected in those economies. Supply may constrain U.S. nominal rates some, but the chance of an extended rise is later down the road. There are solid U.S. companies whose earnings can actually grow, as they are exposed to parts of the world which can grow. So we will take our corporate exposure there, and in structured products where we find that cash flows will most likely not be broken.

**– Ellen Safir,
chief executive officer,
New Century Advisors**

The economic news doesn't provide much positive fodder and likely won't for some time as it generally lags the recovery. Even Warren Buffet sees the economy in a "shambles" at least through this year. However, the market will begin discounting a recovery well in advance, and there are plenty of reasons to focus on the future: economic stimulus, valuation, M&A activity, and unprecedented levels of idle cash. The defensive sectors are generally the last to witness capitulation selling; we hope that with health care seeing some relative weakness, the frenetic selling might be reaching a crescendo. Similarly, the relative strength in the technology and consumer sectors might be a sign that those sectors have bumped into something of a valuation floor.

**– Grant Brown,
portfolio manager,
Chinook Capital Management**

We believe these market downshifts represent the markets adjusting expected returns to be commensurate with the current environment of higher risk. Given the unprecedented levels of volatility in the markets, investors who enter the markets now or stay in the markets can expect unprecedented levels of returns going forward. We also believe that mixed in this major market turmoil is a "paradigm shift" which may reflect a fundamentally different way of doing business in the future. What we may be seeing is virtual banking, virtual freeways and virtual property being revalued at higher levels, and tangible modes of banking, transportation and real estate being devalued on a relative basis. The convergence of this phenomenon with a bursting real estate bubble and CDS counterparty risk collapse has created the crisis we are in today. Trying to maintain values for traditional assets is costly and longer term may not make sense.

**– Cynthia Tusan,
president,
Strategic Global Advisors**

ABOUT THE SURVEY

For its survey, NTGA polled a select group of respondents, including fixed-income and long-only equity managers across value and growth styles, with a bias toward fundamental, bottom-up strategies. Invitations to complete the survey were sent only to investment managers who currently manage a mandate for NTGA and its clients. The survey is conducted quarterly so that NTGA and participating managers can examine trends in attitudes and allocations.

ABOUT NORTHERN TRUST GLOBAL ADVISORS

Northern Trust Global Advisors is a leading provider of multi-manager investment solutions, with \$28 billion in assets under management for institutional and personal clients as of December 31, 2008. Having investments with more than 200 external managers worldwide, NTGA solutions range from retail mutual funds and alternative asset classes to emerging manager programs and total investment program management for institutions and affluent individuals and families.

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