

INVESTMENT MANAGER SURVEY REPORT SECOND QUARTER 2009

MANAGERS SEE INDICATIONS OF POSITIVE BUSINESS CYCLE CHANGE

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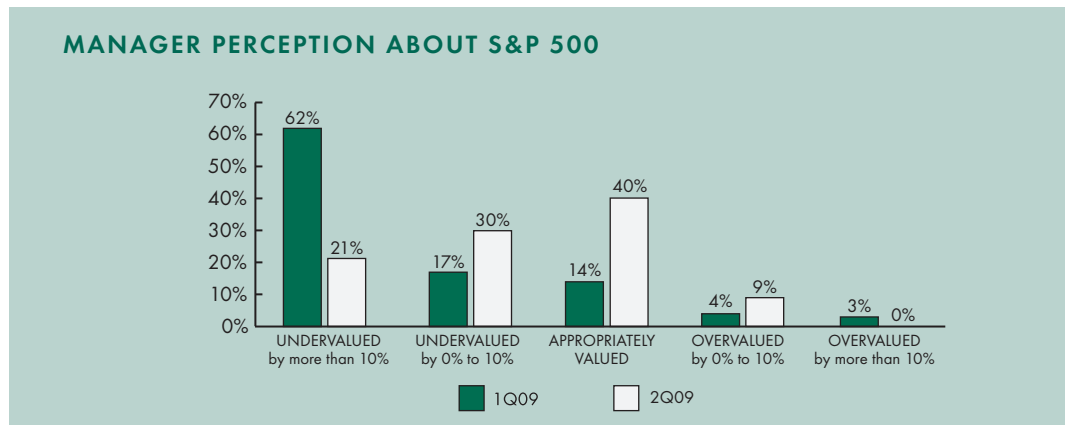
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The Northern Trust Global Advisors second quarter 2009 survey of its investment managers found a profound shift in manager sentiment. Managers see a light at the end of the tunnel, and they are fairly certain that it's not an oncoming train. For the first time in a year, a plurality of managers expect corporate earnings to increase in the next three months, and they are adjusting their cash positions to take advantage of potential market opportunities. We also asked managers to comment on the unprecedented government intervention programs announced and implemented throughout the first half of the year. Manager responses carried common themes; while programs such as Term Asset-Backed Securities (TALF) and Public-Private Investment Program (PPIP) may somewhat stimulate short term credit markets, managers are uniformly wary of the unintended consequences of these programs.

MANAGERS SURVEY SUMMARY

The second quarter 2009 investment manager survey found strong indications that managers see a light at the end of the tunnel, and they are fairly sure that the light is not an oncoming train. The Northern Trust Global Advisors (NTGA) quarterly manager survey began exactly one year ago, and in that time, this quarter's survey was the first indication that managers believed that the business cycle (as opposed to the leading market cycle) is ready for a positive change. The percentage of managers believing that corporate earnings will increase next quarter jumped dramatically, and managers have been positioning their portfolios accordingly to take advantage of potential opportunities. Though there was a decline in managers who believed that the equity markets were significantly undervalued, at least half still see room for market improvement, albeit increased volatility expectations suggest a bumpy ride along the way.

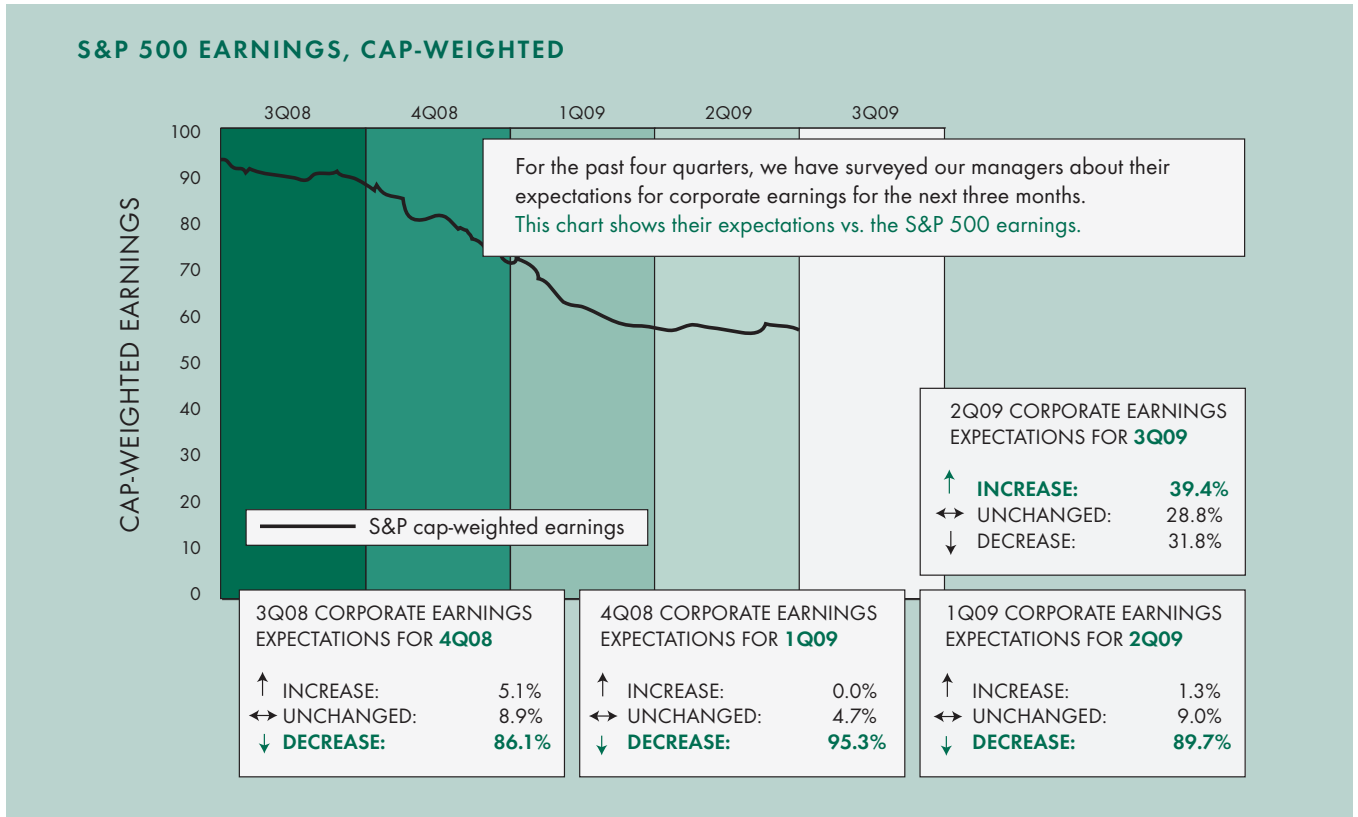
Because we only send the manager survey to those managers currently employed by NTGA in its client investment programs and portfolios, we have always hoped that the survey would give readers an indication of what "smart money" was thinking. Given the dramatic change in managers' corporate earnings expectations for the next quarter, we wanted to see the accuracy of our managers' responses thus far in the year since we began sending out our survey.



CONTINUED



The chart below tracks the quarter-by-quarter results of our manager responses to their expectations for corporate earnings in the subsequent three months:



From the third quarter of 2008 through the first quarter of 2009, managers overwhelmingly believed that corporate earnings would decrease in the subsequent quarter, and those expectations have turned out to be correct. This most recent quarter's survey has revealed a dramatic shift in expectations, with a minority of managers believing that corporate earnings will decrease. A majority of managers expect corporate earnings to either increase or remain the same, and a significant plurality actually believe that earnings will increase in the third quarter. We look forward to reporting our managers' accuracy of expectations in next quarter's survey report, along with other indications of where our managers have gotten it right (and wrong) in the past.

Corporate earnings represent just one dimension of economic health, and we wanted to know how our managers measure economic outlook for themselves. Namely, we asked our managers what event would have to occur to convince them that the economy had recovered. Improving unemployment and housing numbers, and tightening corporate bond spreads were the most oft-cited answers. The most interesting and specific answer we received came anonymously: "AIG sold."

In light of several unprecedented government interventions and programs established in the first half of 2009, we also took the opportunity to ask our managers about their opinions on programs such as TALF and PPIP. Managers had mixed opinions, with most tentatively agreeing that the programs had at least moderate impact in unfreezing credit markets and restoring market confidence. However – and perhaps not unexpectedly given the strong free-market bias that investment managers tend to exhibit – many were also concerned about the moral hazards and other unintended consequences that such programs may entail.

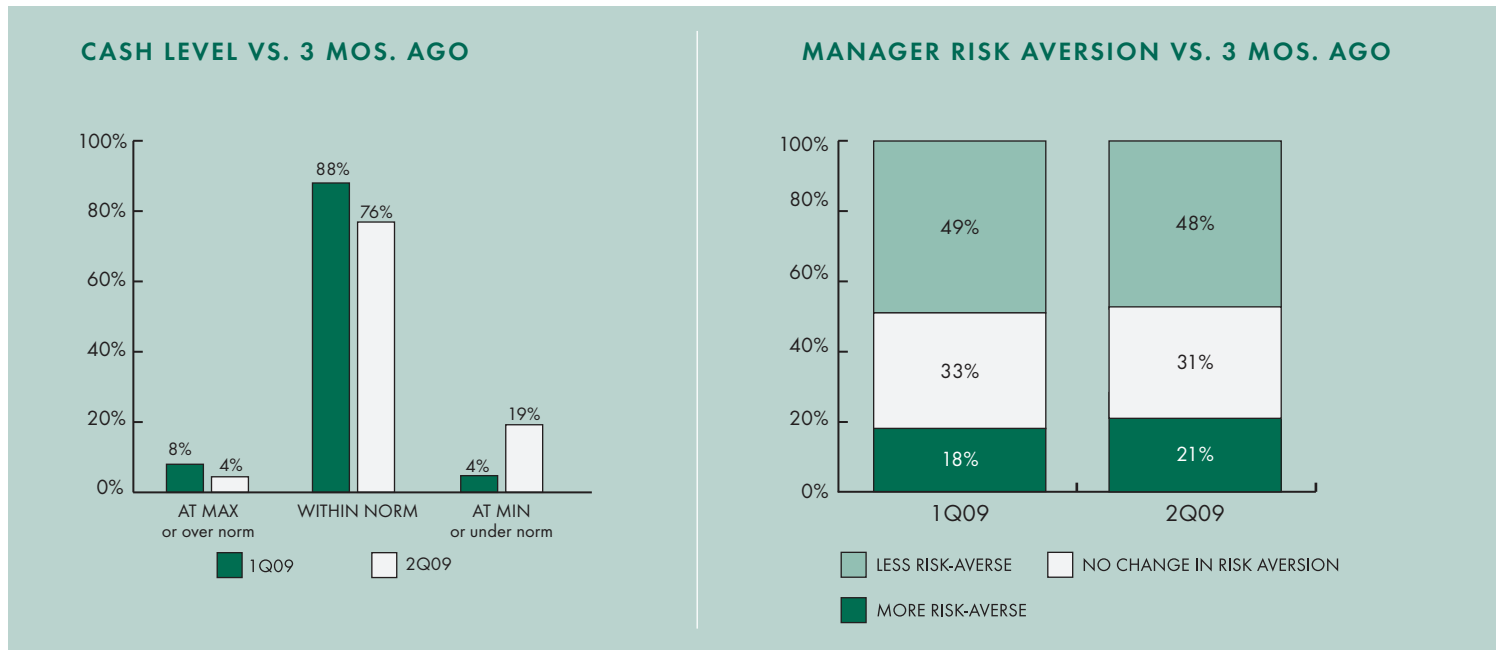
The following pages cover in detail the responses from our managers and the story we believe the numbers tell: economic expectations are the most positive in a year, and managers have been channeling their relatively increased appetite for risk toward less-defensive industries and generally less cash holdings. With this quarter's positive change in outlook, managers seem to believe that the freight train of the economy soon will be strong enough to propel markets to the end of the tunnel.

MARKET VALUATION

The second-quarter survey saw a dramatic decline in managers who believe the market, as represented by the Standard & Poor's (S&P) 500, to be significantly undervalued. In contrast to the first quarter's results, where almost 80% of respondents believed the S&P 500 to be undervalued, only slightly more than half of managers held similar views during the second quarter. Though less dramatic than results from the past year, a majority of managers still see room for further market appreciation. The shift in manager sentiment moved toward a more neutral "appropriate valuation" rather than overvaluation, with 40% of managers believing the S&P 500 to be appropriately valued.

CASH HOLDINGS

Managers have backed up their belief in undervalued markets by shifting from cash to securities, and the proportion of cash in portfolios has fallen dramatically from the panic-stricken days of late fall and winter 2008. The percent of managers characterizing their cash holdings as at the maximum or greater than their normal cash holdings decreased to 4% in the second quarter 2009 compared to 8% in the first quarter 2009. In addition, the percentage of managers with cash holdings at or below their minimum historic norm has grown dramatically from 4% in the first quarter to 19% this quarter. While the vast majority of managers remain within their normal cash holding range, these shifts 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, 79% of managers said that they were either less risk-averse or had no change in their risk aversion in the last three months. This quarter's results were similar to the previous quarter's results, which saw 82% of managers with either less or no change in risk aversion.

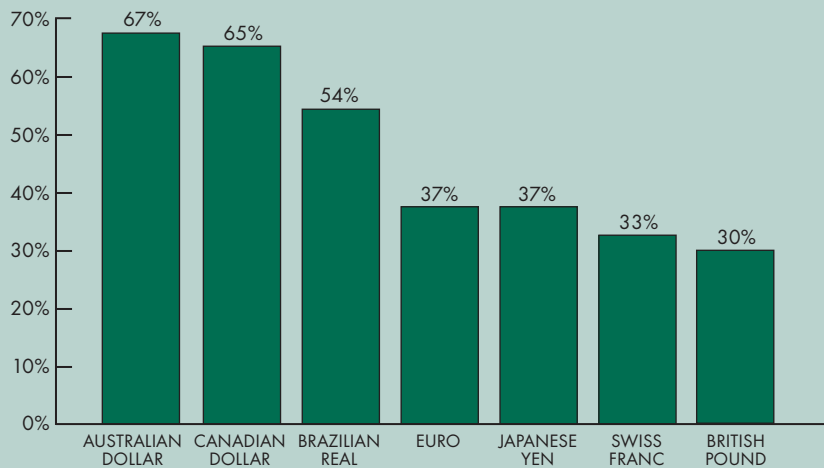
RANKED BROAD INVESTMENT OPPORTUNITIES

When asked to rank potential investments from a broad array of opportunities, the rankings for emerging market equity and emerging market debt jumped notably, supporting the rest of the survey's view on manager optimism and relative appetite for risk.

Managers considered the U.S. small cap equity market as the ripest for investing, followed closely by the international emerging equity markets. U.S. large cap equity, international developed equity, and commodities rounded out managers' top five most attractive investments.

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

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.

CURRENCY EXPECTATIONS

Once again, the commodity theme manifested itself when managers were asked to pick the currencies they expected would appreciate relative to the U.S. dollar. The relative rank and magnitude of managers picking the Australian dollar, Canadian dollar, and Brazilian real, three countries whose currencies strongly correlate with commodity prices, are consistent with rising commodity prices from continued strong demand. Aside from the Brazilian real, which was a new currency choice in this quarter's survey, manager currency expectations did not change much from the previous quarter.

MOST ATTRACTIVE MARKET SEGMENTS

Digging deeper to more specific investment opportunities, when asked to cite their top most-attractive market segments, managers' answers remained fairly stable from the previous quarter's survey to the current quarter's survey. Industrials appeared as a new top-five investment, knocking out consumer staples.

CORPORATE EARNINGS

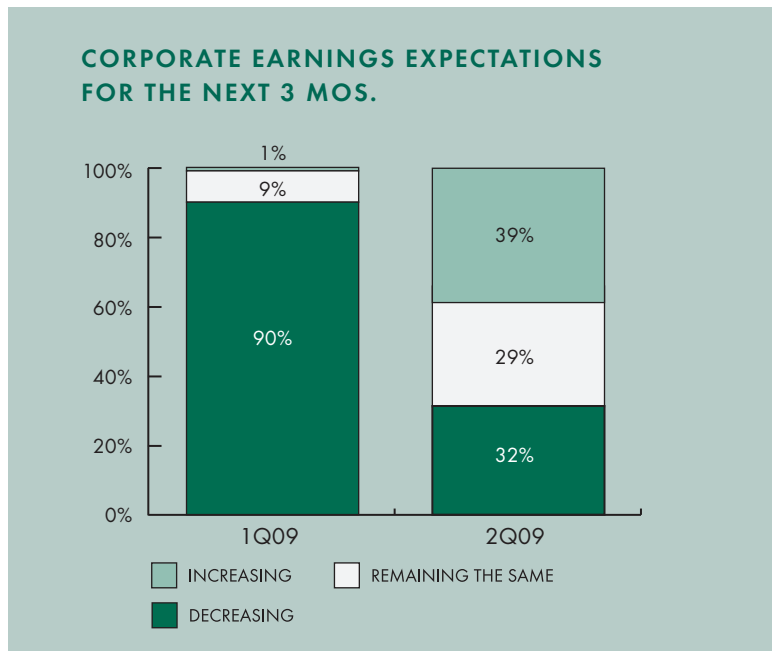
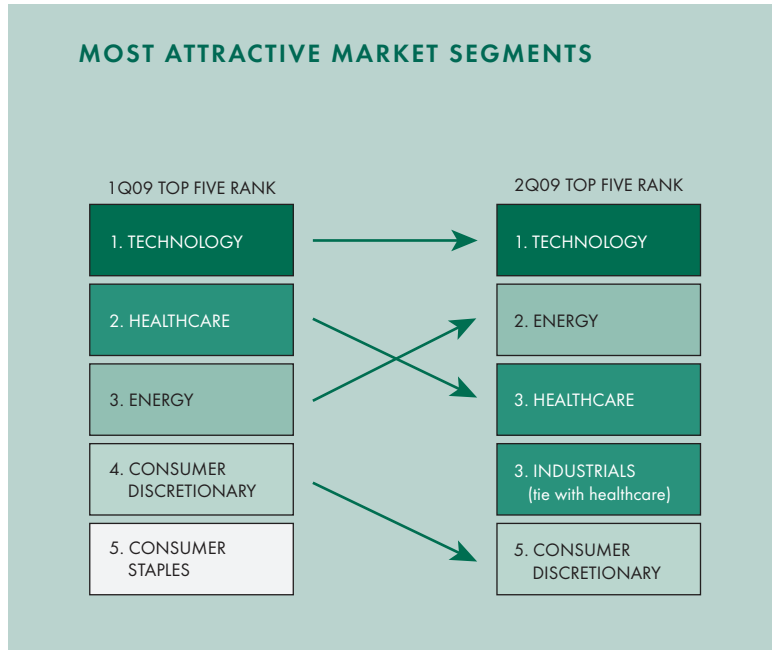
In the most dramatic change in the past year of surveys, manager expectations for future corporate earnings became dramatically more positive with the second-quarter survey. Whereas a full 90% of managers taking the first-quarter survey believed that corporate earnings would decrease in the next three months, only 32% believed so in the second quarter. At 39%, the survey showed a plurality of managers even expecting increasing earnings in the next three months, as opposed to 1% and 0% of managers in the first quarter 2009 and fourth quarter 2008 surveys, respectively, willing to express such a positive opinion.

GLOBAL GROSS DOMESTIC PRODUCT

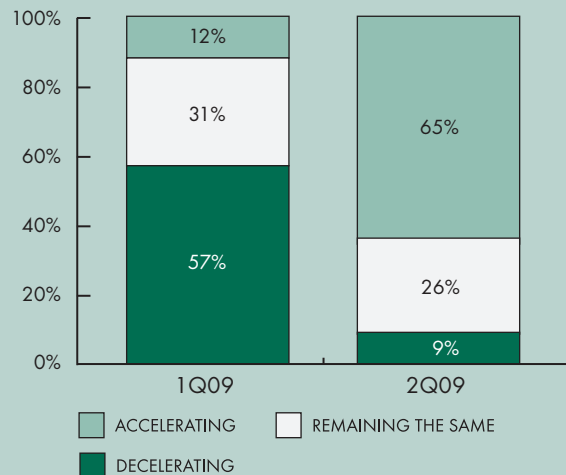
Similar to the positive expectations for corporate earnings, a majority – 65% – of managers expect global gross domestic product (GDP) to accelerate in the next six months. This is in stark contrast to the only 12% of managers saying the same in the first quarter of 2009.

GLOBAL INFLATION EXPECTATIONS

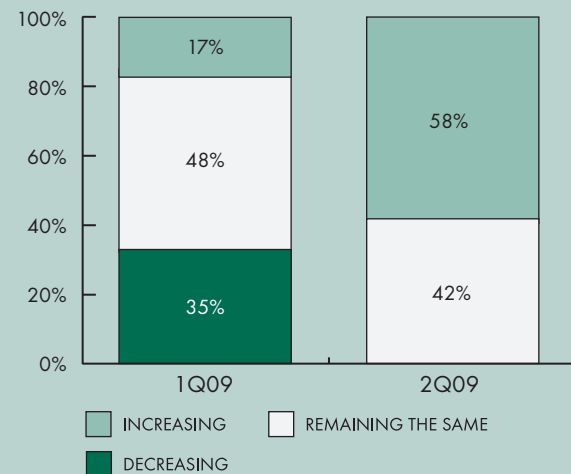
Consistent with the notion that growth and inflation go hand-in-hand along with the survey's results on global growth, managers also expect global inflation to pick up in the next six months. A full 58% of managers expect global inflation to increase in the next six months, compared to only 17% of managers who held the same view last quarter. Where 35% of managers in the first quarter expected inflation to decrease in the subsequent six months, no manager expressed the same sentiment in this quarter's survey.



GLOBAL GDP EXPECTATIONS FOR THE NEXT 6 MOS.



GLOBAL INFLATION EXPECTATIONS FOR THE NEXT 6 MOS.



INTEREST RATE EXPECTATIONS

In a sign that managers see central banks returning from near-zero rates to normal policy, survey results showed a measurable shift in interest rate expectations. A small majority – 51% – of managers expects interest rates to increase in the next three months, compared with only 13% who believed the same in the first quarter. Managers who expect interest rates to either remain the same or decrease fell from 87% to 49%.

MANAGER PERSPECTIVES

The following represent a selection of quotes from managers about the government intervention programs such as TALF and PPIP implemented in 2009.

Generally speaking, Riverbridge is concerned about the increased governmental involvement in the financial markets. Their actions will likely have a favorable short-term impact with respect to unfreezing credit markets. However, many unintended consequences will occur that will likely result in greater harm than good. Throughout time, rarely has governmental injection into private industry resulted in a positive conclusion. Motives of private industry and members of government are seldom aligned. The result is almost always increased bureaucracy and thus making the United States a less-attractive destination for capital. The current actions will serve only to forestall inevitable economic adjustments and corrections. The budget deficit has exploded and cannot be sustained. These necessary adjustments will stifle economic growth in years to come.

**– Rick Moulton, portfolio manager,
Riverbridge Partners, LLC**

To the extent that confidence is restored to the markets thereby changing pessimism to optimism, liquidity and

fairer pricing will likely be the by-product, a positive. The challenge is to restore a sense that the free-market system, absent government intervention, is still the underpinning for the domestic and global capitalistic system. Without it, one has to continue to worry about government having a heavy hand in investment results which may or may not favor shareholders. More programs may result as the government seeks to deploy capital in places where illiquidity is still creating a formidable adversary to markets functioning properly. Our investment approach incorporates an eye toward today and a vision of tomorrow juxtaposed against the valuation. What

we have seen is that many of the companies receiving federal funds were not deemed investment-worthy by our approach. Government-backed or -provided capital has not changed our view on these companies. We invest on the merits of the company not on the standing of co-investors or back-stop structures. Many equity investors thought that the implied guarantee of Fannie Mae and Freddie Mac's debt would give them some safety. This proved not to be the case.

– **Kenneth Holley, chief investment officer,**
Atlanta Life Investment Advisors

Prospects for the TALF program are better than those for the PPIP, because of private-sector concern about partnering with the government. TALF already is demonstrating its ability to provide needed funding to re-open an array of securitized markets, and should make even more of a contribution in coming months.

Two of the biggest risks are price distortions created by government subsidies and direct government intervention that lingers on after the emergency passes. Also, there's the effect on the Fed's balance sheet, which could make it more difficult for the central bank to unwind its quantitative easing.

– **Gary Schlossberg, senior economist,**
Wells Capital Management

The following comments mention some indicators and events managers would look for to conclude that the markets have recovered.

Increasing access to capital into small public and private firms, which has not really begun in earnest yet.

– **Mike Corelli, portfolio manager,**
Oppenheimer Capital

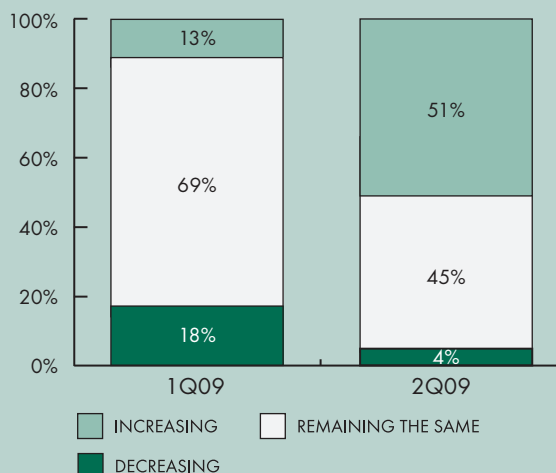
No single event or indicator would convince us that the economy has "recovered," and the financial markets will in all likelihood recover well in advance of the economy. Given the nature of this particular economic downturn, the indicators that we view as most important relate to credit spreads and credit availability, housing activity and price measurers, employment data including payroll data, confidence measures and measures of economic activity such as GDP.

– **Eugene Fox, managing director,**
Cardinal Capital

Real estate prices stabilizing and corporate earnings stabilizing for the next four quarters would convince us that the economy has turned the corner. Two quarters of stability would not be enough to convince us that the markets are ready for a full recovery. Stable earnings for the four quarters, while a lower bar than earnings growth, would still be a significant positive.

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

INTEREST RATE EXPECTATIONS FOR THE NEXT 3 MOS.



If we were to see corporate profits increase for two successive quarters, we would feel comfortable concluding that the economy has recovered. With some of the larger banks looking to pay back their TARP money and with the recent easing of credit, we are currently feeling a little better about the financial market recovery as well.

**– Geoffrey Gerber, chief investment officer,
TWIN Capital Management, Inc.**

The first set of indicators has occurred – lower LIBOR spreads, increased credit market liquidity, capital for banks, lower corporate yield spreads, and better corporate earning, which indicate some stability in the system. We need to see sustainable inflection in broad economic activity, corporate revenue growth and/or viability, and broad access to capital for a wider spectrum of companies to have more conviction that we have not only stabilized, but have entered a new growth phase.

**– Leo Harmon, managing director,
Fiduciary Management Associates, LLC**

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 stock picking strategies. Invitations to complete the survey were only sent to investment managers that currently manage a mandate for NTGA and its clients. As a result, the survey responses should reflect the beliefs of only the managers in which NTGA maintains a high conviction. 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 \$26 billion under management for institutional and personal clients as of March 31, 2009. 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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