

INVESTMENT MANAGER SURVEY REPORT SECOND QUARTER 2010

MANAGERS LESS OPTIMISTIC ON GROWTH AS EURO DEBT CONCERNS PERSIST

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The second quarter 2010 Northern Trust Global Advisors (NTGA) manager survey revealed a moderation in managers' sentiment regarding global economic conditions. The majority of managers now expect global growth to remain the same or decelerate over the next six months, a strong shift compared to the first quarter where the majority expected global growth to accelerate over the next six months. Although growth expectations have moderated, managers still appear confident that the market has upside. In fact, in the second quarter an overwhelming majority of survey participants stated that they believe the U.S. equity market is undervalued, implying increased upside potential. This quarter, there is evidence of decreased concern regarding inflation, rising interest rates and higher market volatility, a notable change. For example, nearly 80% of managers responded that they expect interest rates to remain the same over the next three months, a meaningful increase from 66% in the first quarter. One area where concerns remain high regards Portugal, Italy, Ireland, Greece and Spain. Fully 68% of managers expect concerns related to these countries to weigh on global markets for more than six months. As a result, the majority of managers – approximately 57% – have avoided investing in these areas.

SECOND QUARTER 2010 MANAGER SURVEY

The second quarter survey of external managers used by Northern Trust Global Advisors demonstrated some interesting shifts in manager sentiment regarding both the market and global economic conditions. First, managers now appear less optimistic on global growth; 75% of managers surveyed in the second quarter anticipate that global growth will remain the same or decelerate. This is a strong shift from the results seen over the last four quarters, where the majority believed global growth would accelerate over the next six months. In the second quarter only 25% of managers shared this view, while 37% revealed that they expect global growth to decelerate, an increase from 10% from last quarter.

- 68% of managers expect concerns regarding the countries Portugal, Italy, Ireland, Greece and Spain to weigh on markets for more than six months.
- 37% expect global growth to decelerate in the next six months.
- 18% of managers anticipate a rise in interest rates in the next quarter, down from 32% last quarter.
- 62% of managers still see room for market appreciation.

This quarter we also asked managers to share their views on the sovereign debt issues in Portugal, Italy, Ireland, Greece and Spain, as these issues are likely correlated to investors' opinions of global economic conditions. The majority of managers think this issue will remain through the rest of 2010. Fully 68% of managers surveyed expect the concerns regarding Portugal, Italy, Ireland, Greece and Spain to weigh on global markets for more than six months. Less than 5% believe these concerns will only impact global markets for less than three months. As a result, 57% of managers have stated that they have avoided investing in Portugal, Italy, Ireland, Greece and Spain and 21% have reduced exposure to these areas. There are managers, however, who are maintaining their exposure to Portugal, Italy, Ireland, Greece and Spain (16%) and 6% who have found some new investment opportunities in these areas as a result of the underperformance.

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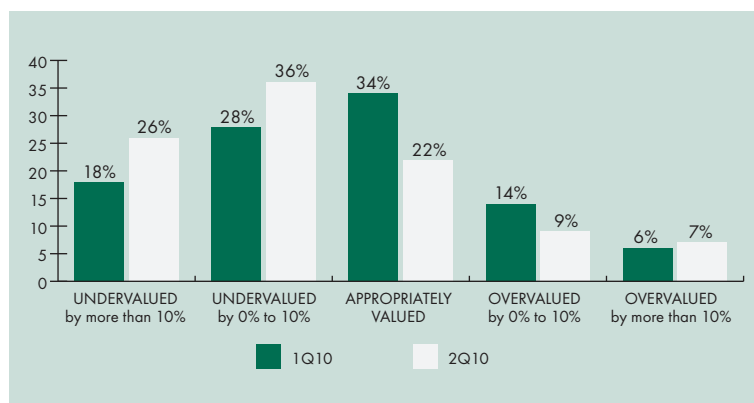
This quarter, managers appear less concerned about the level of market volatility over the short term. A growing number now foresee market volatility, as measured by the Volatility Index or VIX, decreasing over the next six months. Fully 29% of managers anticipate market volatility to decrease over the near term, up from 9% from last quarter. Another 29% are calling for the market to stabilize; the remainder (43%) still expects volatility to increase. Despite any uncertainty regarding volatility, managers continue to believe in future upside for the equity markets. In the second quarter, approximately 62% of NTGA managers considered the Standard & Poor's (S&P) 500 index to be undervalued. This is a meaningful increase from 46% in the first quarter, implying managers are more optimistic about market return potential. This is in line with the negative return for the S&P 500 index quarter-to-date through June 21. With regards to international markets, there was only a slight change in managers' opinions of the valuations in the Japanese equity market. Approximately 24% of managers view the Japanese equity market as undervalued by more than 10%, up from 22% in the first quarter. Fully 38% of managers believe the Japanese equity market is appropriately valued and only 10% of managers believe the market is overvalued compared to 14% last quarter. The change of managers' opinions of emerging markets was more pronounced. There was an 8-percentage-point increase in the

number of managers who believe emerging market equities are undervalued and a 10-percentage-point decrease in the number that believes the market is overvalued. Approximately 32% of managers view emerging markets as appropriately valued, up slightly from the first quarter. Managers are using these opportunities to increase the concentration of their portfolios. Some 24% of managers responded that their portfolios are more concentrated than three months ago, a meaningful increase from 10% last quarter. Cash levels also remain low: while the majority of managers are within their normal range, 12% are below the norm.

This quarter, more managers stated that they expect interest rates to remain steady over the next three months. Approximately 80% of managers now anticipate that interest rates will remain unchanged in the third quarter of 2010, up from 66% from last quarter. Approximately 18% of managers expect rates to increase over that period, a significant decrease from 32% in the first quarter. Managers' concerns regarding inflation have also diminished this quarter. An increasing majority (61%) of managers expect global inflation to remain stable over the next six months, while 21% believe global inflation is a decreasing threat.

The following pages summarize the most notable responses from this quarter's survey. The results show some changes in the trend of manager opinions quarter-over-quarter, most notably a moderation in global growth expectations and fewer concerns regarding inflation, interest rate increases and volatility.

MANAGER PERCEPTION ABOUT S&P 500



MARKET VALUATION

Using the S&P 500 index as a proxy, there was a noticeable shift in manager sentiment regarding the valuation of the U.S. market in the second quarter. Approximately 62% of managers believe the S&P 500 index is undervalued, which may bode well for future performance. This figure is a 16-percentage-point increase from last quarter. The number of managers who believe the S&P 500 is undervalued by more than 10% increased from 18% in the first quarter to 26% in the second quarter. Not surprisingly, fewer managers – specifically 16% – believe the market is overvalued. This is in line with the market's negative trend quarter to date.

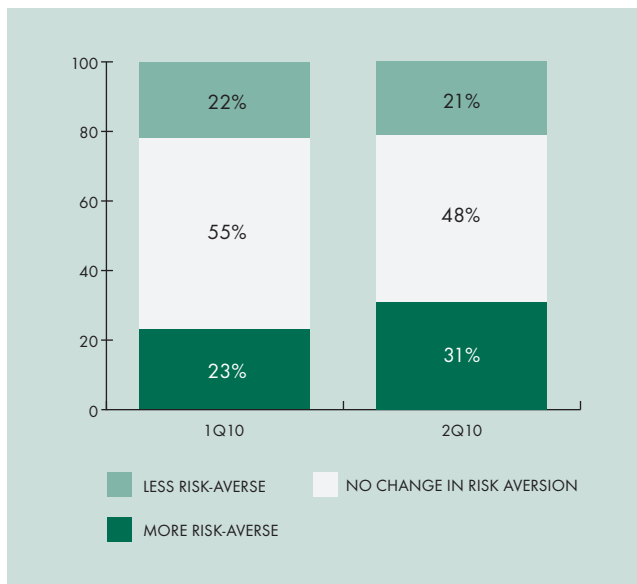
In the second quarter, approximately 53% of managers surveyed said they believe Japanese equities are undervalued. This is unchanged from last quarter, while 38% of managers believe the Japanese equity market is appropriately valued compared to 33% last quarter. Some 10% of managers viewed the Japanese market as overvalued in the second quarter.

In the second quarter, the number of managers that believe emerging market equities are undervalued increased to 40% from 32% last quarter. The number of managers who believe emerging markets are overvalued declined by 10 percentage points this quarter. This implies that there may be increased upside in these markets, in line with their weaker performance quarter to date.

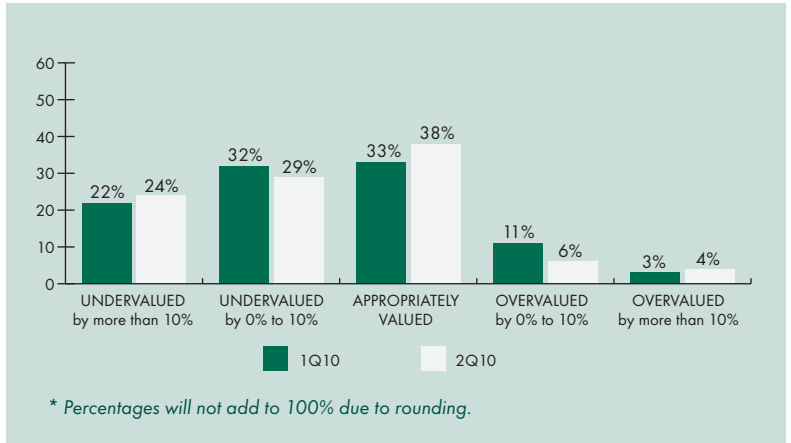
RISK AVERSION

In the second quarter, an increasing number of managers expressed a more risk-averse view. This quarter, 31% of managers responded that they are more risk-averse than three months ago. This is up 8 percentage points from 23% in the first quarter 2010. The number of managers that appear to be satisfied with the risk levels of their portfolios is shrinking. Fully 48% of managers expressed a stable “no change in risk aversion” sentiment, compared to 55% last quarter. This quarter, however, 21% of managers described themselves as less risk-averse, down slightly from last quarter.

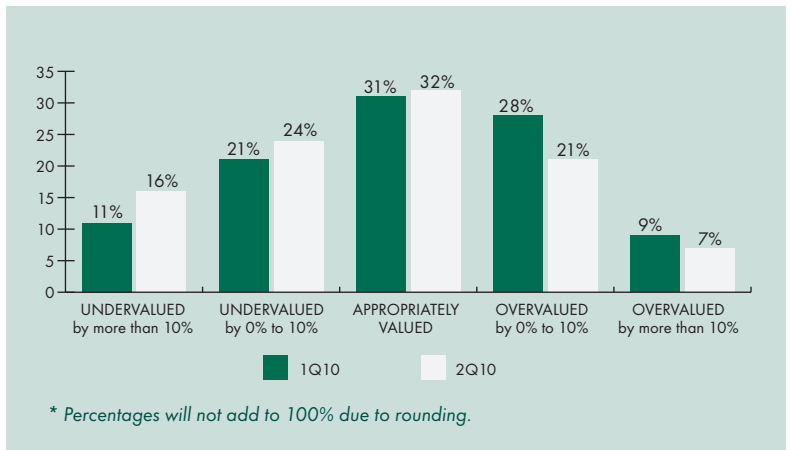
MANAGER RISK AVERSION VS. 3 MONTHS AGO



MANAGER PERCEPTION ABOUT JAPANESE EQUITIES*



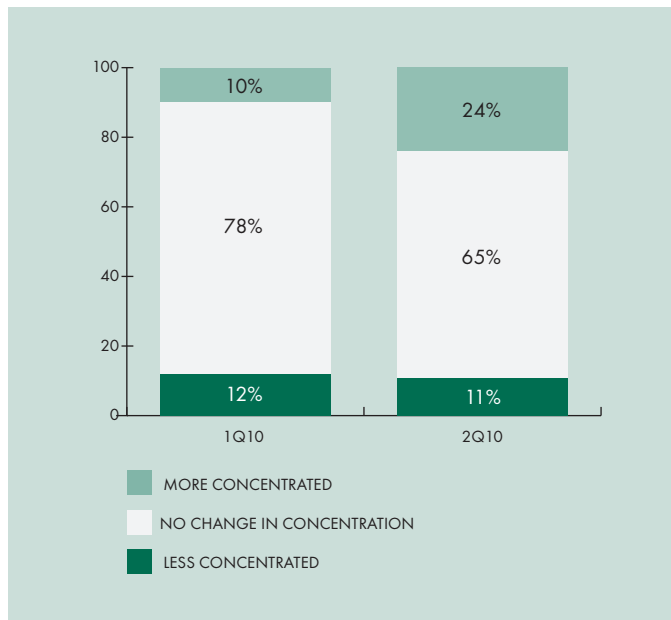
MANAGER PERCEPTION ABOUT EMERGING MARKET EQUITIES*



PORTFOLIO CONCENTRATION

Managers appear to be running their portfolios in a more concentrated fashion this quarter. Although 65% of managers stated there was no change in their portfolio's concentration, this was down from 78% in the first quarter. And 24% of managers revealed that their portfolios are more concentrated this quarter. Only 11% of managers stated that their portfolios are less concentrated than they were last quarter.

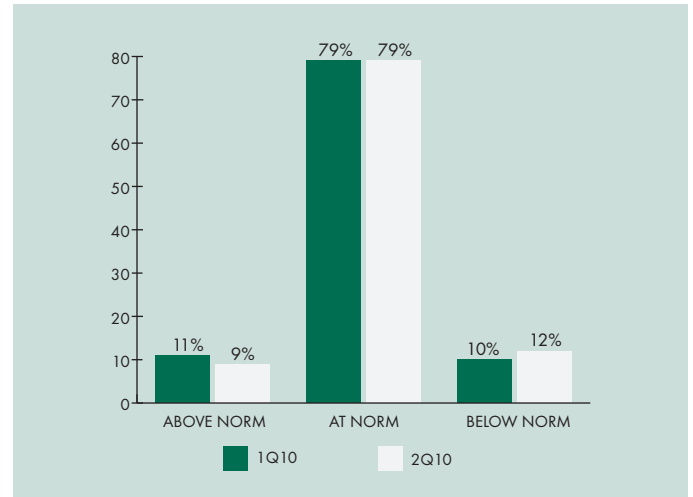
PORTFOLIO CONCENTRATION COMPARED TO THREE MONTHS AGO



RANKED BROAD INVESTMENT OPPORTUNITIES

NTGA managers' ranking of investment opportunities changed in the second quarter. The highest-ranked investment opportunities remain U.S. large cap equity and U.S. small cap equity. MSCI emerging markets moved ahead of MSCI Europe, Australasia, Far East (EAFE) investments this quarter. Private real estate and the aggregate bond index moved up in attractiveness, while emerging market debt, private equity, government Treasury Inflation-Protected Securities (TIPS) and non-U.S. bonds fell in the rankings.

CASH LEVEL VS. 3 MONTHS AGO



CASH HOLDINGS

The survey results reveal fairly stable cash levels for most managers, with some evidence of a decrease in cash for a select group of managers. The majority of managers – specifically 79% – continue to work within their normal cash range. There is, however, an increase in managers working with a cash level below their historical norm. In the second quarter, 12% stated they are below their typical cash level, compared to 10% in the first quarter. This may be partly due to managers finding greater investment opportunities as markets sold off in the quarter.

2Q10 RANK	INVESTMENT	RANK RELATIVE TO 1Q10
1	U.S. Large Cap Equity	↔ No change
2	U.S. Small Cap Equity	↔ No change
3	MSCI Emerging Markets	↑ Higher
4	MSCI EAFE	↓ Lower
5	Commodities	↔ No change
6	Hedge Funds	↔ No change
7	Other	↑ Higher
8	Emerging Market Debt	↓ Lower
9	Private Real Estate	↑ Higher
10	Private Equity	↓ Lower
11	Aggregate Bond Index	↑ Higher
12	Government TIPS	↓ Lower
13	Non-U.S. Bonds	↓ Lower
14	U.S. Treasury (Cash)	↔ No change

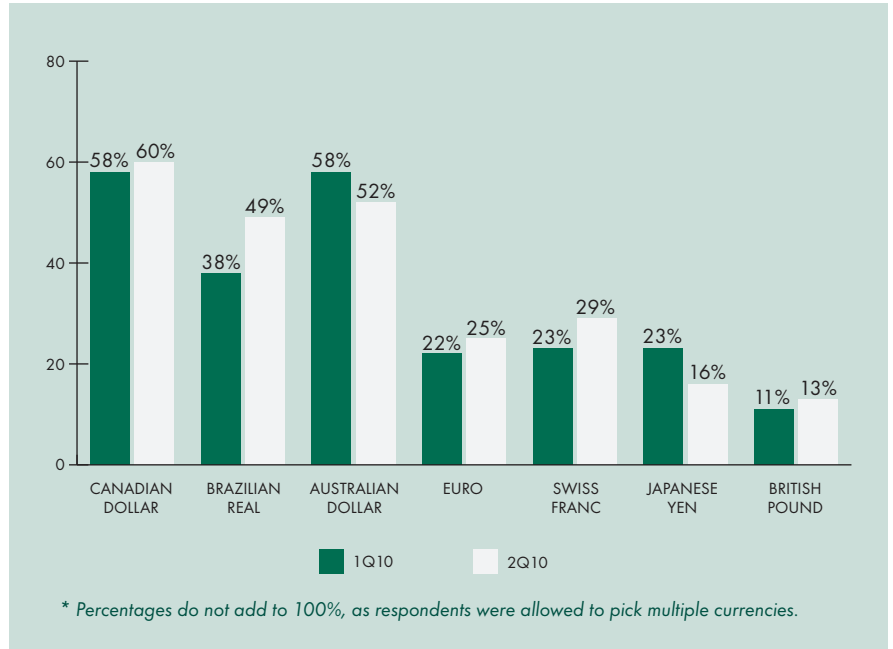
CURRENCY EXPECTATIONS

There were some notable changes to managers' currency expectations in the second quarter. This quarter, managers' expectations for appreciation increased for five of the seven currencies listed below. Similar to the first quarter, the majority of managers continue to expect the Canadian dollar to appreciate. Although still a majority, fewer managers anticipate that the Australian dollar will appreciate relative to the U.S. dollar over the next six months. There was also a significant drop in the number of managers expecting Japanese yen to appreciate relative to the U.S. dollar. Fully 16% of managers expect the Japanese yen to appreciate, compared to 23% in the first quarter. Conversely, there was a measurable increase in the number of managers that expect the Brazilian real, euro, Swiss franc and British pound to appreciate.

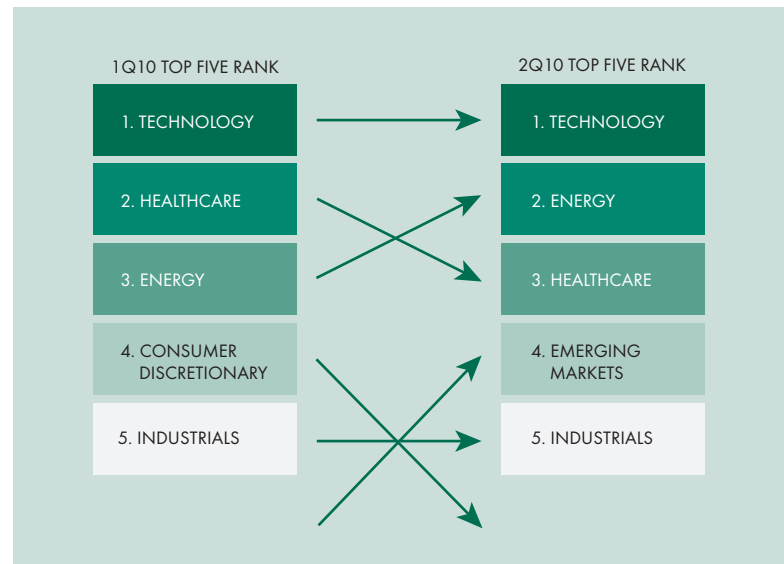
MOST ATTRACTIVE MARKET SEGMENTS

When asked to cite the most attractive market segments, managers stated that technology, energy and healthcare are the top-ranking investment opportunities this quarter. This is similar to the first quarter, although energy moved ahead of healthcare to take second place this quarter. Emerging markets, which did not rank in the top five last quarter, ranked fourth this quarter. Finally, consumer discretionary fell out of the top five, while industrials continued to rank fifth in the second quarter.

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



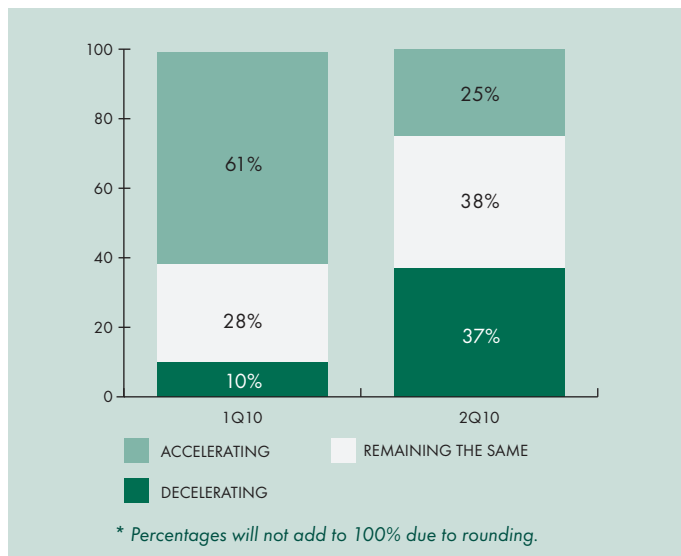
MOST ATTRACTIVE MARKET SEGMENTS



GLOBAL GROSS DOMESTIC PRODUCT

Expectations for accelerating global growth continue to moderate. The majority of managers now expect global growth to decelerate or remain the same at best. Approximately 37% of managers currently believe global growth will decelerate over the next six months. This is up meaningfully from 10% in the first quarter and 2% in the fourth quarter. Some 38% of managers believe that global growth will remain the same for the next six months. This quarter we also observed a decrease in the number of managers with optimistic expectations, as 25% of managers expect global growth to accelerate compared to 61% in the first quarter.

GLOBAL GDP EXPECTATIONS FOR THE NEXT 6 MONTHS



GLOBAL INFLATION EXPECTATIONS

The proportion of managers expecting global inflation to increase declined to 19% this quarter. This is a reversal of the trend observed last quarter. The majority of managers now expect inflation to remain unchanged over the next six months. An increasing number now believe that the general level of prices may actually fall over the next six months. In the second quarter, 21% of managers said they expect global inflation to decrease compared to only 3% last quarter. This reveals a decline in the anticipated threat of inflation.

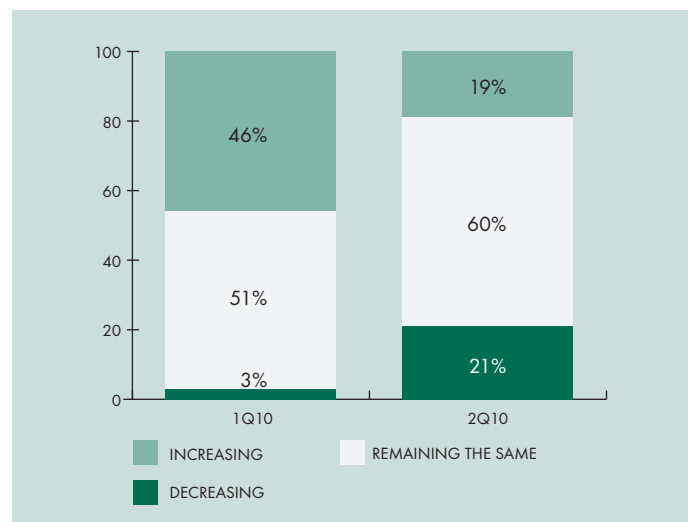
INTEREST RATE EXPECTATIONS FOR THE NEXT 3 MONTHS



INTEREST RATE EXPECTATIONS

In the second quarter there was a notable shift in manager sentiment regarding interest rate expectations. There was a 14-percentage-point decrease in the number of managers that believe interest rates will increase over the next three months. Specifically 18% of the managers surveyed stated they expect interest rates to increase compared to 32% in the first quarter. As a result of this shift, 80% of managers now expect interest rates to remain unchanged in the upcoming quarter.

GLOBAL INFLATION EXPECTATIONS FOR THE NEXT 6 MONTHS



MANAGER PERSPECTIVES

This quarter we asked managers to share with us their expectations for the market for the second half of 2010 and what themes they think will drive performance for the rest of the year:

“We believe performance in the second half will be volatile with positive returns generated after the November elections. The economy is in a ‘muddle-through’ mode. Businesses are being very conservative, with cash on balance sheets at extraordinarily high levels. However, the financials continue to heal, building book value with the help of a very friendly yield curve. We expect earnings to come in ahead of expectations for many spread-based financials. We believe there are companies in the industrial sector whose earnings growth will accelerate beyond expectations because of the increased profit leverage they have built into their businesses through cost cutting. This will allow some companies to produce 15% to 20% earnings growth on only about 5% sales increases. Finally, many technology companies are benefiting from pent-up demand caused, in many cases, by their customers’ delay of purchasing during 2008 and 2009.”

— **Mary Brown, president,**
Campbell Newman Asset Management, Inc.

“We expect to see M&A continue (or potentially intensify) over the next six months at least, which should drive performance, especially in small cap equities – generally the targets. From a sector standpoint we see significant risk to the consumer discretionary sector, but we have felt this way for some time, given the lack of private sector job creation and excessive expectations. Finally, we believe that there will be a return to the ‘quality’ trade, not necessarily a bear market, but some differentiation between stocks with strong fundamentals, cash flow and solid balance sheets versus the ‘risk-at-any-price’ type momentum that has been driving a relatively low-quality rally over the last 12 months.”

— **Grant Brown, CFA, portfolio manager,**
Chinook Capital Management, LLC

“While the global recovery is still underway, there have been weak pockets in this recovery that have significantly tempered other positive news. We expect meaningful volatility through the third quarter and an uptick, perhaps a meaningful rally, in the fourth quarter.”

— **Dan LeVan, director and senior portfolio manager,**
Munder Capital

We also asked managers to share any additional thoughts on the market or the economy and to discuss any topics that are currently being debated by their investment teams.

The following represents a selection of their responses:

“We have thought about and discussed the ongoing situation regarding the eurozone countries under the most pressure and the potential outcome for the euro as a result. The EU, ECB and IMF’s bailout package may contain the problem in the near term, yet for the monetary union to survive in the long run, we would expect to see changes that may provide greater fiscal influence to the ECB. This of course is not guaranteed, and would likely face resistance from the member countries. As a result of the extreme weakness in the euro versus the U.S. dollar, we have evaluated the opportunities that may benefit from euro weakness and even trimmed back some of the existing positions in the portfolio that have significantly outperformed as a result of such currency fluctuations.”

— **Kirk Henry, CFA, director of non-U.S. value equities,**
The Boston Company Asset Management, LLC

“...the durability of the recovery and whether there will be a double dip or a significant slowdown. We lean toward some slowing in the second half to 3% or so in the U.S. and something less than 1% in the rest of the developed world. The emerging economies’ growth should slow but remain robust.”

— **Tim Dalton, chairman, Dalton, Greiner, Hartman,**
Maher & Company, LLC

ABOUT THE SURVEY

For our survey, NTGA polled a select group of respondents, including fixed income and equity managers across value and growth styles, with a bias toward fundamental, bottom-up stock picking strategies. Invitations to complete the survey were sent only to investment managers that currently manage a mandate for NTGA and our 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.

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Northern Trust Global Advisors is a leading provider of multi-manager investment solutions, with \$34.5 billion under management for institutional and personal clients as of March 31, 2010. 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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