FOURTH QUARTER 2011 SUMMARY

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2011 MARKET PERFORMANCE – GLOBAL EQUITIES

Global equities were down for the year in 2011, with developed markets as measured by the MSCI World Index faring better than emerging markets with a return of -5.54%. The MSCI Emerging Markets Index posted a loss of 18.42%, while the MSCI Frontier Markets Index returned -17.55%.

The top performing country during the year was Qatar, which returned 8.23%. Qatar was one of the few countries to experience positive returns in 2011.

Emerging market BRIC nations were down significantly for the year, underperforming the broader emerging market benchmark with a return of -22.85%. India delivered an exceptionally poor performance, losing 37.17% in 2011. Indonesia and Malaysia were the only emerging markets with positive returns during the year, posting gains of 6.00% and 0.12%, respectively.

The United States outperformed all of the broader indexes, as the Standard & Poor's (S&P) 500 rose 2.11% during 2011, compared with a -12.14% return from MSCI EAFE. International markets continued to suffer from the European sovereign debt crisis, as well as growing concerns of a slowdown in developing economies.

Large cap securities outperformed small cap securities in 2011. In the United States, small cap securities, as measured by the Russell 2000, were down 4.18% for the year, compared with a positive 2.11% return from the S&P 500. Emerging markets showed a similar pattern, with large cap securities returning -18.42% and small cap securities returning -27.18%. Developed large cap securities, with a return of -5.54%, outperformed developed small cap securities, which returned -15.94% in 2011.

Currency Impact on Index Performance

2011 was a volatile year for markets in general. In this section we will focus on currency markets and their impact on some of the major equity indexes.

International index returns are comprised of the following two components:

- Stock price change (including income) for a given period in local currency, and
- Foreign exchange rate fluctuation between the local currency and the investor currency.

For example, a British investor buying French stocks is exposed to two types of returns – returns of French stocks and changes in the British pound relative to the euro. If the euro appreciates

1 Unless otherwise stated, country returns are derived from MSCI Standard Indices (large- and mid-cap securities).

Please note: unless otherwise indicated, data is derived by Northern Trust using information available to it.

Northern Trust

International index returns are comprised of stock price change and foreign exchange rate fluctuation.

versus the British pound, the investor will benefit from this move, since his portfolio will gain value when converted to British pounds.

In the case of an index that includes multiple countries, such as MSCI World, the same investor will be affected by equity returns in each of the underlying countries and the change in the British pound relative to each currency included in the index, e.g., U.S. dollar, Japanese yen, euro, etc.

Index Performance

Table 1 shows the performance for some major global indexes in U.S. dollars, euros, and local terms. Local returns include equity returns only and do not reflect any currency impact.

Over the last three and five years, returns in USD or euro have for the most part been higher than corresponding local returns.

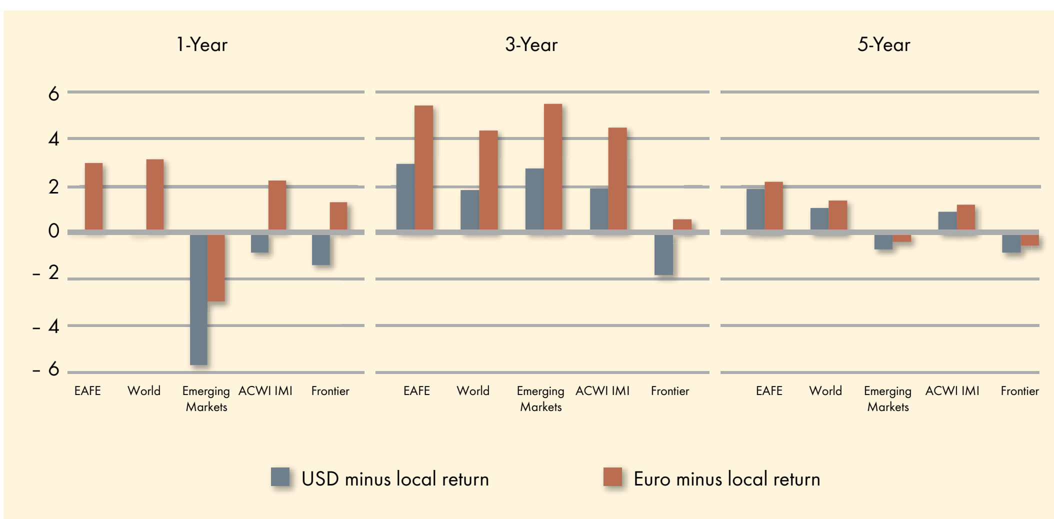
TABLE 1: ANNUALIZED RETURNS (%) AS OF 12/31/11

	1-Year			3-Year			5-Year		
Index	USD	Local	EUR	USD	Local	EUR	USD	Local	EUR
EAFE	–12.14	–12.15	–9.20	7.65	4.72	10.14	–4.72	–6.61	–4.42
World	–5.54	–5.49	–2.38	11.13	9.34	13.69	–2.37	–3.45	–2.06
Emerging Markets	–18.42	–12.73	–15.70	20.07	17.35	22.84	2.40	3.08	2.72
ACWI IMI	–7.89	–7.01	–4.81	12.84	10.97	15.44	–1.64	–2.55	–1.33
Frontier	–18.72	–17.30	–16.01	3.93	5.77	6.32	–6.08	–5.27	–5.79

Source: MSCI

Chart 1 uses data from Table 1 and shows the difference between U.S. dollars and local returns and the difference between euro returns and local returns. This allows us to measure the impact of the currency effect on each index.

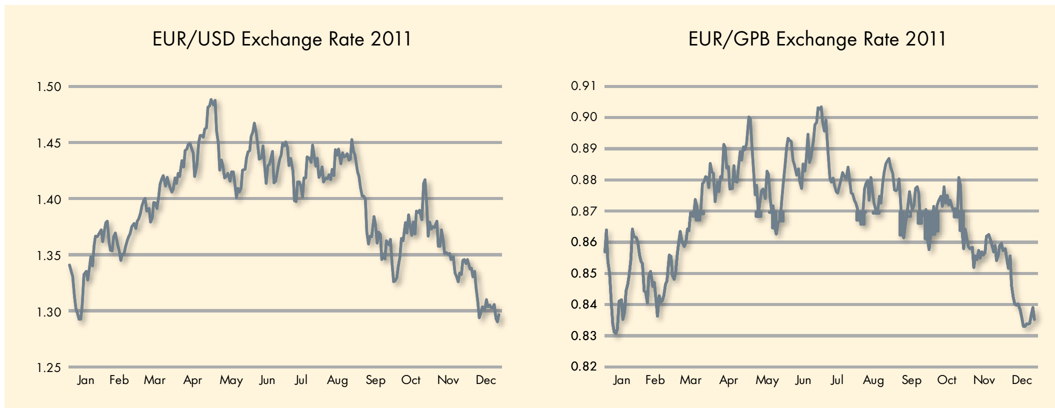
CHART 1: USD AND EURO RETURNS (%) VS. LOCAL RETURNS (%) AS OF 12/31/11



Source: MSCI

In 2011, developed market returns in euros were significantly higher than local returns or returns in U.S. dollars.

In 2011, developed market returns in euros were significantly higher than local returns or returns in U.S. dollars. The euro climbed against the U.S. dollar and the British pound during the first half of the year, as markets became more optimistic about a solution to the European sovereign debt crisis. However, negative developments in the region, particularly in Greece, Italy and Spain, drove down the value of the euro into the end of the year, finishing at US$1.30 and GBP0.83 per euro.



Source: Factset

The loss in value by the euro made investments in international developed markets more valuable for investors in the eurozone.

The loss in value by the euro made investments in international developed markets more valuable for investors in the eurozone, resulting in higher euro returns relative to local returns.

The Japanese yen gained significantly against the U.S. dollar and the euro throughout the year. The exchange rate saw large fluctuations following the earthquake in March and April. As we witnessed a massive repatriation of yen to help fund reconstruction efforts, the Japanese currency quickly appreciated against most currencies. The Bank of Japan intervened in an attempt to curb the rise in the value of its currency, but the yen still finished the year at JPY76.91 per U.S. dollar and JPY99.66 per euro.

For U.S. investors with exposure to MSCI EAFE or World, the combination of an increase in value of the U.S. dollar against the euro combined with a decrease in value against the yen contributed to returns staying flat against returns in local terms for 2011.

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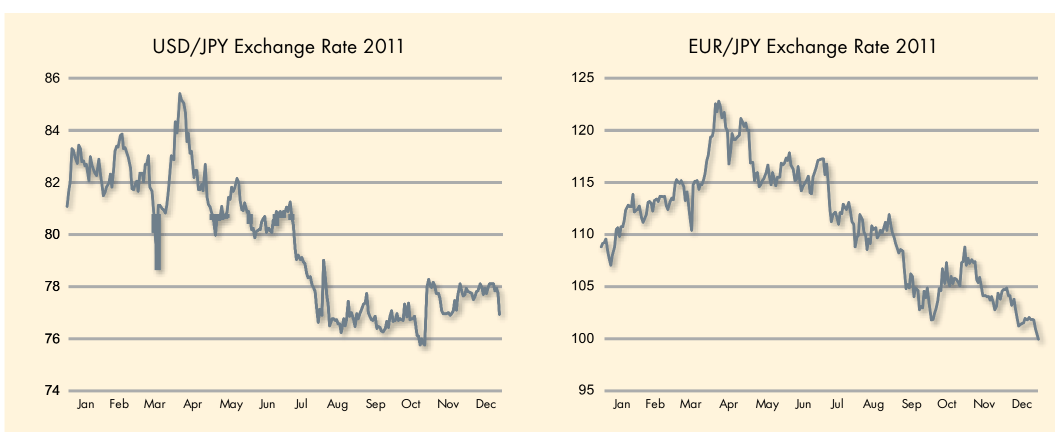


Source: Factset

Emerging market currencies generally fell against the U.S. dollar and the euro in 2011.

Emerging market currencies generally fell against the U.S. dollar and the euro in 2011, which explains the stronger performance of local returns vis-a-vis USD and euro returns. The Brazilian real fell by 10.97% against the dollar and 8.04% against the euro, while the Russian ruble fell 5.16% against the dollar and 2.04% against the euro in 2011. Concern about a slowdown and vulnerability to the European debt crisis in developing economies caused investors to de-risk and divest from emerging markets.

Currency impact on risk

To assess the impact currencies have on index volatility, we consider a longer time horizon. We have seen that over the last three and five years, returns in USD or euro have for the most part been higher than corresponding local returns. We now look at the impact currencies have on risk and ask this question: are local returns less volatile because they do not include currency fluctuations?

TABLE 2: INDEX VOLATILITY[2] AS OF 12/31/11

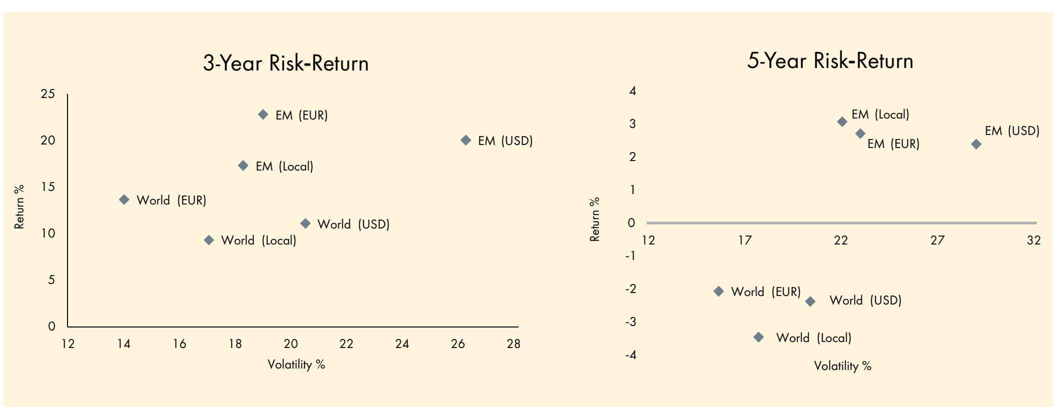
Index	3-Year Volatility (%)			5-Year Volatility (%)		
	USD	Local	EUR	USD	Local	EUR
Emerging Markets	26.12	18.23	18.94	29.09	22.13	23.08
World	20.44	17.01	14.01	20.47	17.79	15.72

Source: MSCI

The table above clearly shows the disparity in volatility due to currency exposure and helps answer our question: index risk in local terms, excluding currency risk, is not necessarily lower. For MSCI World, risk of euro returns was lower than risk in local terms for both three- and five-year periods ending December 31, 2011.

It is worthwhile linking risk and return for indexes in U.S. dollars, euros and local terms, as shown in the following two charts.

CHART 2: 3- AND 5-YEAR RISK-RETURN AS OF 12/31/11



Source: MSCI

2 Volatility is calculated as the annualized standard deviation of monthly returns.

Currencies have affected index risk and returns significantly and in different ways depending on time period, index and investor currency.

Currencies have affected index risk and returns significantly and in different ways depending on time period, index and investor currency. For instance, an investor in the eurozone saw MSCI World returns over the last three and five years improved by the currency component. At the same time, currencies helped lower the volatility of the index relative to the MSCI World calculated in local terms. However, if we consider MSCI Emerging Markets during the last five years for a U.S. investor, currencies detracted from performance while increasing the risk relative to MSCI Emerging markets in local terms.

Some investors may decide to hedge some or all of their currency exposure, when possible, in order to either improve returns and/or reduce risk. In our Third Quarter 2011 Global Index Bulletin, the article on currency hedging concluded that while the appreciation/depreciation of an investor's home currency can lead to lower/higher returns, time periods and the home currency's correlation with the equity market can significantly affect the effectiveness of a hedge from a risk perspective. This same conclusion is true when looking at currency impact on index performance where time period and currency correlations with equity market will play an important role.

MSCI SEMI-ANNUAL REVIEW – NOVEMBER 2011

The objective of the MSCI semi-annual index review is to reflect changes in market structure due to performance, initial public offerings, de-listings and corporate events. Based on the new market size-segment cutoffs, current constituents were re-weighted and newly eligible companies were identified, resulting in additions, deletions, float and share changes to the indexes effective on the close of Wednesday, November 30, 2011.

MSCI Developed World Summary

MSCI World two-way turnover was 1.12%.

Based on the review, 15 companies were added to the MSCI World Index, while 29 were deleted. Two-way turnover was 1.12% versus 0.62% in August 2011 and 1.92% in May 2011. Of the 15 additions, seven were in the North American region, five were in Europe and three were in Asia-Pacific. The largest country weight increase was Canada (+0.05%) and the largest decrease was the United States (-0.09%). The largest trade was a sell of Nestle Corp. ($352 million) due to a share decrease. On a net basis, the number of constituents in the MSCI World Index decreased by 14 names to 1,643, with a new market capitalization of US$24.5 trillion, a 0.13% increase.

The MSCI World Small Cap Index saw 197 security additions and 193 deletions, resulting in two-way index turnover of 5.6% and a 0.21% increase in market capitalization. The largest contributors to turnover were the United States (2.39%), Canada and the United Kingdom (0.48%). Of the 197 additions, 94 were in North America, 45 in Asia-Pacific, and 58 in Europe and the Middle East. The largest country increase in weight was Canada (+0.08%) and the largest decrease was the United Kingdom (-0.20%). On a net basis, the number of constituents in the MSCI World Small Cap Index increased by four names to 4,582 securities with a market capitalization of US$4.1 trillion.

MSCI Emerging Market Summary

MSCI Emerging Markets Index added 32 securities resulting in a 1.0% increase in market capitalization.

In the MSCI Emerging Markets Index, 32 securities were added and 33 deleted, resulting in a 1.0% increase in market capitalization. Two-way index turnover was 3.28% compared to 1.18% turnover in August 2011 and 3.94% turnover in May 2011. Of the 30 additions, 23 were from the Asia-Pacific region, seven from Europe and notably there were no additions from Latin America. The largest country increase in weight was China (+0.32%) and the largest decrease was Brazil

(-0.19%). As a result of the review, the number of constituents in the emerging markets index decreased by one name to 821 securities, with a new market capitalization of US$3.2 trillion.

There were 152 security additions and 204 deletions from the MSCI Emerging Markets Small Cap Index, resulting in two-way index turnover of 19%. The largest contributors to turnover were China (4.31%), Korea (3.64%) and Taiwan (2.83%). Of the 152 additions, 124 were in Asia, 15 in Latin America and 13 in Europe and the Middle East. The largest country increase in weight was Brazil (+0.07%) and the largest decrease was India (-0.07%). On a net basis, the number of constituents in the MSCI Emerging Markets Index decreased by 52 names to 1,905 securities with a new market capitalization of US$420 billion.

EMERGING MARKET COUNTRY UPDATES

Qatar, UAE to Remain in the "Frontier"

In the Third Quarter 2011 Global Index Bulletin, "A Leader in the Global Frontier," we discussed MSCI's review of both Qatar and UAE as countries that could potentially graduate to emerging-market status from frontier-market status.

MSCI announced it will continue to classify both Qatar and UAE as frontier-market countries but will continue to consider both countries for reclassification as part of its 2012 annual classification.

As expected, on December 14, 2011, MSCI announced it will continue to classify both Qatar and UAE as frontier-market countries but will continue to consider both countries for reclassification as part of its 2012 annual classification in June 2012. MSCI had extended its original review in June 2011 to December 2011 to allow institutional investors greater time to assess the recent changes to the operations frameworks in these markets that included implementation of a new delivery versus payment model. In addition, MSCI had concerns regarding stringent foreign ownership limits on companies in both markets.

Since the extension of the review, MSCI concluded that the institutional investment community, including Northern Trust, continued to stress significant concerns over the effectiveness of the new operational framework. In addition to the operational concerns, no changes were implemented by the Qatari regulators during the review period to alleviate the stringent foreign ownership restriction at the company level. As a result of MSCI's findings, both Qatar and UAE will continue to be classified as Frontier Markets.

Both Qatar and UAE have already been and continue to be considered for upgrade by other index providers. For example, Russell and FTSE include the UAE as an emerging market, while Dow Jones includes both Qatar and the UAE as emerging markets. S&P is also considering both for upgrade to emerging markets. However, the majority of institutional investors use the MSCI Emerging Market index as the proxy for their emerging markets equity exposure, and therefore the impact of graduation is more significant.

Brazil Eliminates Foreign Ownership Tax

One of the challenges for managing index assets in emerging markets is the significantly higher transaction costs relative to developed markets and the resulting impact on tracking error. Brazil, with an approximate weight of 15% in the MSCI Emerging Market Index, has been a source of higher transaction costs. Brazil's recent announcement eliminating the foreign ownership tax will help reduce some of the inherent challenges of investing in emerging markets.

Brazil's central bank instituted a series of regulations over the last several years related to foreign investment. Its objective was to stem the rally in the Brazilian real (BRL) relative to the U.S. dollar and other reserve currencies. Each of the measures led to periodic weakening of the real, though over the long term, it continued to appreciate. The Brazilian government recently announced the elimination of the IOF* tax imposed on foreign investors for both equity and fixed income securities. The following highlights the various changes imposed by Brazil's central bank over the last few years including the December 1, 2011, announcement.

- *October 20, 2009* – IOF tax increase from 0% to 2% on foreign exchange (FX) transactions related to equity and fixed income securities
- *October 5, 2010* – IOF tax increase from 2% to 4% on FX transactions related to fixed income investments
- *October 19, 2010* – IOF tax increase from 4% to 6% on FX transactions related to fixed income investments
- *April 4, 2011* – Increase in reserve requirements
- **December 1, 2011** – IOF tax reduced to 0% from 2% on equity transactions
  (*IOF – "Imposto sobre Operacoes Financeiras," or Brazilian tax on certain financial operations)

The intention of the tax change is to encourage foreign investment within Brazil, which will host upcoming events such as the World Cup soccer tournament (2014) and Summer Olympics (2016). There will be need for additional investment in Brazil's infrastructure. This move also coincides with a number of various actions taken by central banks around the globe demonstrating the collective need to calm investors' nerves about market volatility.

2011 PERFORMANCE SUMMARY

In the Third Quarter 2011 Global Index Bulletin, we highlighted a number of alternatively weighted index series and broadly defined the index objectives. The following table illustrates the one- and three-year (where available) return of both U.S. and global benchmarks within a sample of each category. We continue to emphasize that investors examining various indexes and products need to understand the potential applications and investment implications of these products, as they evaluate the roles these indexes may play within their portfolios.

ALTERNATIVELY WEIGHTED INDEX PERFORMANCE

	Total Return % (USD) as of 12/31/11	
	1-Year	3-Year
Volatility/Risk/Risk+Factor		
U.S. Indexes		
S&P 500 Low Volatility Index	10.88%	12.04%
MSCI US Minimum Volatility Index	11.94	14.39
Russell 3000 Defensive Index	8.57	12.72
MSCI US Risk Weighted	5.60	17.65
Global Indexes		
MSCI ACWI Minimum Volatility Index	5.34	12.17
MSCI ACWI Risk Weighted Index	–6.49	16.53
Equal Weight/Alternatively Weighted		
U.S. Indexes		
S&P 500 Equal Weight Index	–0.11	6.79
Russell 1000 Equal Weight Index	0.24	23.32
Global Indexes		
MSCI ACWI Equal Weighted Index	–6.70	20.42
MSCI ACWI GDP Weighted Index	–11.92	10.83
Dividend		
U.S. Indexes		
S&P 500 Dividend Aristocrats Index	8.33	17.84
Dow Jones US Select Dividend Index	12.42	13.91
MSCI US Investable Market High Dividend Yield	11.03	14.10
FTSE US High Dividend Yield Index	14.05	13.08
Global Indexes		
S&P Global Dividend Opportunities Index	–3.62	20.26
Dow Jones Global Select Dividend Index	–2.39	22.45
MSCI World High Dividend Yield	3.89	13.52
Fundamental		
U.S. Indexes		
FTSE RAFI US 1000 Index	–0.62	18.68
Russell Fundamental US	1.62	17.27
MSCI US Value Weighted Index	–1.52	12.44
Global Indexes		
FTSE RAFI All-World 3000 Index	–9.59	14.28
FTSE RAFI Developed 1000 Index	–8.69	12.19
Russell Fundamental Global	–7.05	14.45
MSCI World Value Weighted Index	–10.98	8.34

Source: Dow Jones, FTSE, Russell, MSCI, S&P

4Q 2011 PERFORMANCE SUMMARY AS OF DECEMBER 31, 2011

	US Dollar Return Net Total Return %	
	QTD	Trailing 1-Year
U.S. Equities		
S&P 500	11.82%	2.11%
S&P 400	12.98	–1.73
S&P 600	17.17	1.02
Russell 1000	11.84	1.50
Russell 2000	15.47	–4.18
Russell 3000	12.12	1.03
Russell 3000 Growth	10.94	2.18
Russell 3000 Value	13.33	–0.10
Dow Jones Total Market Index	12.12	1.08
Global Indexes		
MSCI World	7.59	–5.54
MSCI EAFE	3.33	–12.14
MSCI Europe ex. UK	3.40	–15.26
MSCI United Kindgom	9.10	–2.56
MSCI Asia Pacific ex. Japan	6.00	–12.79
MSCI Japan	–3.86	–14.33
MSCI Emerging Markets	4.42	–18.42
MSCI ACWI	7.18	–7.35
MSCI ACWI ex. US	3.72	–13.71
MSCI ACWI ex. US IMI	3.31	–14.31
MSCI Developed Market ex. US Small Cap	0.69	–15.81
MSCI Emerging Market Small Cap	–0.66	–27.18
S&P Frontier Market Extended 150	–1.03	–18.15
Alternative Benchmarks		
FTSE EPRA/NAREIT Global Index	6.58	–8.72
Dow Jones-UBS Commodity Index	0.35	–13.32
U.S. Fixed Income		
BC Aggregate	1.12	7.84
BC Govt/Credit	1.18	8.74
BC Govt/Credit Intermediate	0.84	5.80
BC High Yield 2% Cap	6.48	4.96
BC TIPS	2.69	13.56
BC 1-3 Month T-Bills	0.00	0.07
Global Fixed Income		
BC Global Aggregate	0.23	5.64
BC Global Emerging Market	3.93	5.77

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

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