Building on success

WELCOME to *Global Fund Focus* – the newsletter written specifically for you, the investment management community.

It has been a busy few months for Northern Trust. The integration of Baring Asset Management's Financial Services Group has progressed well and our enhanced fund administration capabilities as a result of this acquisition have received a great deal of interest from existing clients and prospects. New mandates awarded to Northern Trust represent a ringing endorsement of the strength of our service provision, and we look forward to building on this success in the coming months.

Recent figures from the Guernsey Financial Services Commission indicate a significant growth pattern in the island's funds sector and, as one of the island's leading fund administrators, Northern Trust is well positioned to attract further interest to the jurisdiction.

The size and complexity of private equity funds continue to increase. It is important, therefore, to have the right systems, people and processes in place to ensure successful administration of these assets, and in this issue of *Global Fund Focus*, we explain why. We also discuss the benefits of cross-border asset pooling using our unique tax transparent solution and we outline other Northern Trust product initiatives which we think may be of interest to you.

I hope you enjoy reading this issue of *Global Fund Focus*. I look forward to hearing your views and ideas on the sort of topics you would like to see in this newsletter.

With best wishes
Steve Potter
executive vice president
Global Fund Services group head

Alternative selections

IT HAS been an outstanding few months for Northern Trust, especially for our alternative asset administration teams…

Swiss Capital Group selected Northern Trust to provide custody and fund administration services to its entire fund of hedge funds range comprising 15 funds with a value of approximately US$1.2 billion (€1 billion).

"We see our selection by Swiss Capital as a strong endorsement of our capabilities and we look forward to working with them," said Jonathan Quigley, director of technical sales for alternative asset administration at Northern Trust in Dublin.

"As the funds of hedge funds marketplace continues to grow in both size and complexity, this is creating more opportunities for full service administrators that have the expertise and experience in this area – like Northern Trust – to be able to provide a high level of operational risk management and world-class servicing to this type of client."

Marcel Schindler, chief operating officer and partner at Swiss Capital Group, said: "After conducting a comprehensive review of the administrators and custodians that supply services to the fund of hedge funds market, we chose Northern Trust because of its strategic view on the hedge fund business, its experienced team and its superior technology."

Northern Trust was also appointed to administer Cordea Savills Wealth Management's first residential fund, following their extensive review of jurisdictions and other service providers.

The Diversified Residential Opportunities Fund Limited (Diverse) was launched in April as an open-ended fund established in Jersey, with shares to be listed on the Channel Islands Stock Exchange.

It aims to meet the requirements of private investors looking to access residential property, with secure income and growth prospects in sectors such as housing associations, student accommodation, sale and leaseback property and hotels.

Northern Trust will provide a comprehensive range of property fund related investment fund services to the fund, including distributions, investor reporting, compliance and corporate secretarial.

New York New York

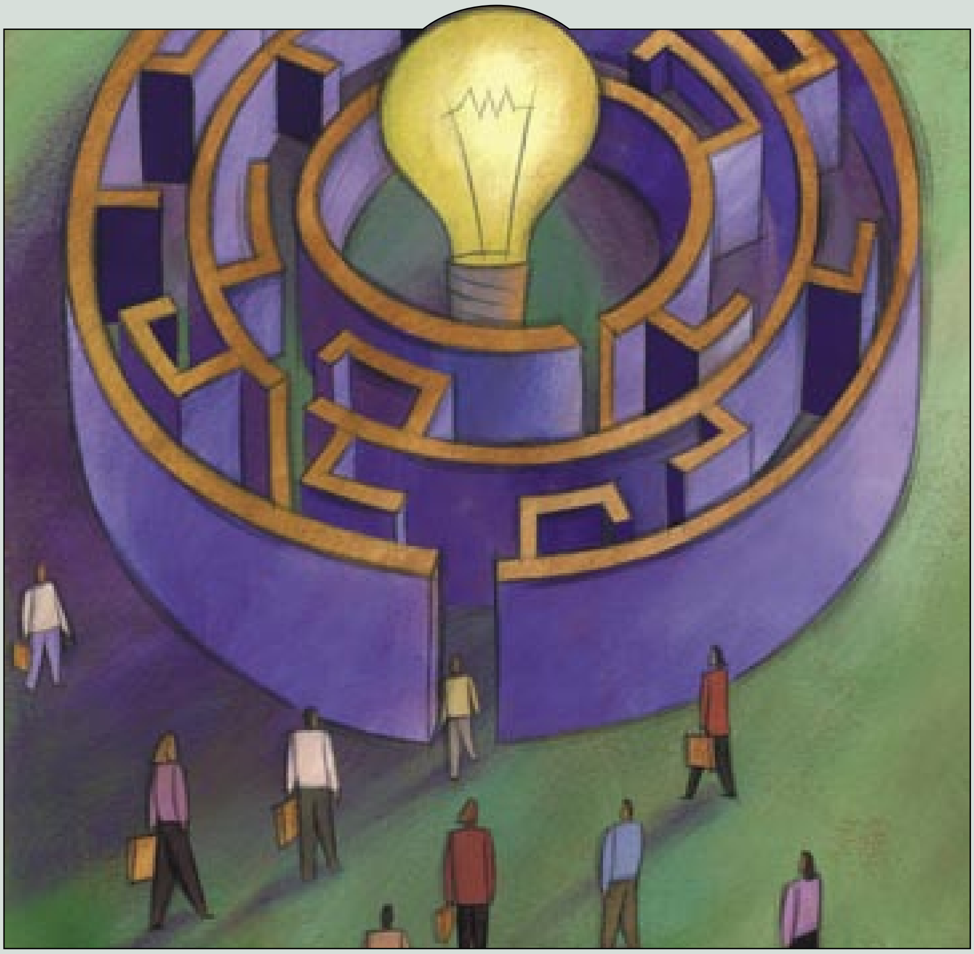
NORTHERN Trust has established an Investment Manager Liaison Group (IMLG) office in New York City to support our growing number of investment manager relationships in the northeastern states of the USA. This location complements our existing teams in Chicago, London and Singapore.

IMLG representatives act as an extension of the middle and back-office by answering enquiries and working closely with all parties to ensure satisfactory resolution of any issues that may arise. As a single point of contact they facilitate communication and information flow with all areas of Northern Trust.

Northern Trust's IMLG supports and services more than 1,400 investment management firms around the world.

People, systems and processes

AS PRIVATE equity funds continue to grow in size and complexity, successful fund administration must combine knowledgeable people, specialist systems and robust processes, explains Northern Trust's Laurence McNairn.



Over the past five years, the size and complexity of private equity fund structures has stimulated the more pro-active third party administrators into a wholesale review of their systems and processes.

This, coupled with demands for more timely and transparent financial reporting from both General Partners (GPs) and their Limited Partners (LPs), has resulted in the call to reduce the operational risks associated with disparate databases, spreadsheets, mail merges and in-house systems.

Private equity is now a major asset class in the alternative investment universe, with a widening institutional investor profile seeking the level of return which well-managed private equity funds can deliver. Today's deals are often significant in size and complexity, involving billions of dollars and cross-border components.

In such an environment, administration integrity sits firmly alongside performance and investment strategy as key investor requirements. Technology – with its ability to meet a wide range of administration challenges from the seamless and timely processing of transactions, such as calls and distributions, to real-time reporting – has a key role to play.

GPs want to be assured that their funds will be administered by experienced staff in an efficient, risk-controlled operating environment supported by a well-developed systems-based solution.

Knowledge-led delivery

Administrators' systems capability needs to be combined with a knowledge-led delivery from people who are experienced with private equity structures and who follow carefully developed processes.

While private equity systems have undergone rapid development over the past few years, they are by no means off-the-shelf products. Operational know-how and understanding of private equity remains the crucial component in successfully servicing private equity funds.

Systems integrity

There are now a number of tried and tested private equity administration systems available on the market. Most offer an integrated nominal ledger, and some varied level of customisation. The choice of product has to be right given the obvious commitment to a long-term relationship with the supplier.

Investran*, our preferred system for private equity administration, provides a robust integrated package for Northern Trust's 39 private equity clients serviced from the Guernsey and Jersey offices.

Using the Investran capabilities, we have utilised the combined database, contact management and accounting packages. Further development in-house, has delivered a versatile data enquiry tool and powerful reporting suite.

Approximately two years from the start of our implementation, we have been rated by Investran as a high-end user. This is quite an achievement, but, as we have discovered, it requires extremely detailed planning, careful execution and significant investment in terms of capital and management time. The entire process needs to be driven by staff who understand both private equity structures and systems issues.

Robust processes

Knowledge and systems capability must be combined with carefully developed processes which enable services to be administered in a timely, well-controlled and accurate manner. A service provider who can demonstrate expertise and dedicated systems capability should be able to provide customised and flexible processing solutions, rather than a one-size-fits-all approach.

In summary

Successful private equity administration will always be the result of people, systems and processes working together to achieve the optimum results for their front-office partners. We believe we are well placed to respond to future requirements as the industry develops.

■ For further information about Northern Trust's private equity and alternative fund business, please contact Laurence McNairn at +44 (0)1481 745400 or laurence_mcnairn@ntrs.com

*Investran is a trademark of SunGard.

Rising to the cross-border p

INVESTMENT managers have long understood the advantages of combining assets within a single fund vehicle.

Managing one large asset pool instead of a number of small accounts promotes management efficiency, not least in improving the costs associated with trading, back-office support, custody and fund administration. These cost savings, as well as the higher returns resulting from pooling, can then be passed on to the clients.

For the smaller investor in particular, pooled funds may be the only practical and cost-effective way to diversify their investments.

But while pooling fund assets is not a new concept, the investment industry is being challenged to find an effective solution for pooling assets across multiple investor types, domiciles and investment countries.

Some investment managers already use traditional offshore fund vehicles for pooling assets from investors in different countries, but the structure used is 'opaque'. This means that investors are taxed according to the domicile of the pooled vehicle. Provisions in tax treaties between, for example, the US and other countries can preclude investors in these pooled vehicles from the tax benefits they would otherwise have if investing directly in the US market. This is a major issue for funds with significant exposure to US equities.

Of course there are always exceptions, and legal and regulatory rules change all the time, but investment managers do need to find the best solutions to help them overcome this problem.

Cross-border pooling solution

Northern Trust's cross-border pooling solution uses the Irish Common Contractual Fund (CCF) and the Luxembourg Fonds Commun de Placement (FCP).

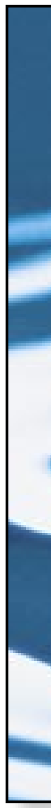
Our CCF and FCP products are designed for tax transparency and this status has been confirmed by tax authorities in a number of countries. Through our innovative pooling fund structures, investors are taxed according to their own country of residence, retaining full benefit of any taxation treaties. A tax transparent vehicle is particularly attractive to investors in North American or global equity mandates who can benefit from favourable double-taxation treaties between their home country and the United States.

The ability to support investors with multiple tax rates in a pooled vehicle is a major innovation from a systems, legal and tax perspective.

Northern Trust worked with a consortium of organisations over a three year period to research and develop this cross-border pooling solution. The consortium encompassed two of our clients as well as Goldman Sachs Asset Management and Mercer Investment Consulting. Additional assistance was given by Deloitte and Touche.

Why choose Northern Trust?

Northern Trust was the first global custodian to develop and implement a practical solution for multinational cross-border pension pooling. Building on that foundation, we are now implementing tax-transparent vehicles for a number of investment managers, in both Ireland and Luxembourg. As a pioneer in this field, we are in a unique position to offer investment manager clients the benefit of our extensive experience and ultimately a competitive edge



Continuous Linked Settlement: Northern Trust leads the way for third party FX transactions

CONTINUOUS Linked Settlement (CLS) is a central clearing mechanism used for settling foreign exchange. It was established in 2002 to create a single industry facility for eliminating settlement risk in the foreign currency markets. Latest volume figures for August 2005 indicate approximately 94,000 contracts are settled daily through CLS with a value of US$1.9 trillion.

CLS creates a payment versus payment environment by linking the two parts of a trade without guaranteeing them. If one entity does not honour its part of the transaction, both payments are cancelled and settlement risk is removed.

At present, the currencies eligible for CLS are Australian dollar (AUD), Canadian dollar (CAD), Swiss franc (CHF), Danish krone (DKK), euro (EUR), British pound sterling (GBP), Hong Kong dollar (HKD), Japanese yen (JPY), Norwegian krone (NOK), New Zealand dollar (NZD), Swedish krona (SEK), Singapore dollar (SGD), US dollar (USD), and South African rand (ZAR). Republic of Korea won (KRW) is also eligible for CLS but due to local trading/settlement restrictions, the vast majority of members are unable to settle in the currency.

Northern Trust is the only global custodian with a fully active programme of settling third party foreign exchange transactions through Continuous Linked Settlement (CLS). Third party foreign exchange (FX) transaction volume through our service has increased rapidly since we became the first global custodian to successfully settle such a trade in February 2004. By the end of 2004, we had settled 1,641 transactions through CLS. The year to August figure in 2005 was 24,624.

This growth illustrates the demand for third party settlement through CLS and the research firm Tower Group predicts that third party participants will cause a five-fold increase in CLS volumes over the next two years.

The benefits of CLS can not be overestimated. It supports the industry's continuing drive for improved operational efficiency by promoting straight-through processing and real time settlement and payment information. In addition, as it eliminates the risk of settlement failure, CLS also removes the need for interest claims that would have been required on the failed transactions. For investment managers, it offers improved liquidity management, requiring reduced deal funding, and means fewer costly delays in reconciliation. For our custody clients, benefits include the elimination of counterparty risk, increased operational efficiency and the comfort of knowing that industry best practice is being used for their FX transactions.

To be CLS eligible, investment managers simply need to instruct their counterparty broker and custodian for settlement in CLS and build the required logic into their system to recognise that a deal is CLS eligible.

It is worth noting that while other custodians have built the systems and undertaken trials, they are not yet pursuing a fully active programme of settling third party FX transactions through CLS.

Northern Trust is a shareholder in the holding company, Continuous Linked Settlement Services Ltd. We play an active role in the development of the service and we chair the custody working party of CLS.

pooling challenge

through the use of our innovative pooling products. We have a proven record in launching asset pooling vehicles.

Our systems are already capable of supporting these fund structures and the detailed investor level tracking and reporting required. We are committed to continuing this process so that we remain up to date with the ever-changing regulatory and legal environments.

Benefits to the investment manager:

- Tax transparency maximises fund performance
- Attractive to institutional investors who can benefit from favourable tax treaty rates
- Pooling yields economies of scale.

Knowledgeable: Kathleen Dugan, senior product manager, asset pooling solutions.

"Developing solutions to achieve cross-border asset pooling requires major changes, not only in your operations but also in your thinking. Custody and fund accounting needs to be undertaken in a different way and there are very few custodians that can rise to the challenge."

Outsourcing relationship expands with Julius Baer

JULIUS Baer Investments Limited (JBIL), Julius Baer's UK institutional investment management business, has selected Northern Trust as its preferred provider of investment outsourcing solutions for their approximately US$4.5 billion (£2.5 billion) in fixed income assets under management. The agreement is expected to be completed by the end of 2005.

Under the proposed agreement, the range of services to be outsourced to Northern Trust are: trade matching, confirmation and settlement, investment record keeping, entitlement processing, pricing, asset set-up, reconciliation, client reporting, valuations and performance analysis.

The new agreement is an extension of Northern Trust's existing relationship with Julius Baer's institutional investment management office in New York, for which Northern Trust has been providing middle and back-office outsourcing solutions since 2004.

"We look forward to extending our relationship with Northern Trust."

Michael Allen, senior manager for operations at JBIL, said: "Through its partnership with our New York office, Northern Trust has demonstrated over the last year that it can deliver superior services from an operational and technological standpoint, and that its approach to human resources and client service is in line with our own practices. It is important to us to be able to work with our selected provider in partnership to maximise synergies and maintain the highest standards for our staff and our clients, and Northern Trust is already showing us that it can meet our needs in all of these areas. We look forward to extending our relationship with Northern Trust into the UK marketplace."

Camie West, Northern Trust's relationship manager for the Julius Baer investment operations outsourcing relationship worldwide, said: "As more investment managers are outsourcing their back-office operations and the marketplace becomes increasingly complex and more competitive, specialist providers of asset servicing solutions need to be able to show that they understand investment managers' requirements and challenges, and demonstrate that they can enhance efficiencies and deliver world-class client reporting through superior technology."

New names for our broadened business

EFFECTIVE September 1 2005, the names of the various entities we acquired from Baring Asset Management's Financial Services Group changed to the following:

Previous name	Activities	New name
Barings Guernsey Limited	Bank and custodian	Northern Trust (Guernsey) Limited
Guernsey International Fund Managers Limited	Fund administration	Northern Trust International Fund Administration Services (Guernsey) Limited
Barings Trustees (Guernsey) Limited	Trustee services	Northern Trust Fiduciary Services (Guernsey) Limited
International Fund Managers (Ireland) Limited	Fund administration	Northern Trust International Fund Administration Services (Ireland) Limited
Barings Ireland Limited	Trustee and agent custodian	Northern Trust Fiduciary Services (Ireland) Limited
Barings (Isle of Man) Limited	Fund administration and trustee	Northern Trust International Fund Administration Services (Isle of Man) Limited
International Fund Managers (Jersey) Limited	Fund administration	Northern Trust International Fund Administration Services (Jersey) Limited
International Fund Managers (UK) Limited	Fund administration	Northern Trust International Fund Administration Services (UK) Limited
Baring Trust Company	Trustee services	Northern Trust Fiduciary Services (UK) Limited

Increasing control through Charles River

TO help our global fund clients cope with their increasing need to effectively monitor and tightly control investment borrowing and restrictions in line with local regulations and fund guidelines, Northern Trust is introducing a new system to complement and increase our existing compliance monitoring capability.

After a comprehensive review of the marketplace and the various solutions available to us, we have decided to implement the Charles River Compliance system, a market-leading compliance application.

The first phase of this project, which is due for implementation by the end of this year, will provide post-trade compliance monitoring for our Dublin Trustee and Luxembourg Management Company. However, this is only the beginning.

There will be four levels of service, which will be rolled out over the next year. The new capabilities will include:

- Set-up of local regulations
- Set-up of fund guidelines
- Set-up of in-house guidelines and tolerance levels
- Daily batch post-trade compliance checks
- Early warning and exception reporting provided via Northern Trust Passport®
- Monitoring the resolution of all breaches.

If you would like to learn more about our expanded investment compliance service, please contact your Northern Trust relationship manager.

Trade Services boost

NORTHERN Trust's unique Trade Services' matching capability has been enhanced, with even more options for investment managers.

Trade Services represents an impressive offering within our full outsourcing capability, allowing investment managers to selectively outsource certain components of their post-execution trade process to us.

In doing so, investment managers acquire the flexibility to achieve cost reductions and realise process efficiencies, while reserving the option to maintain other key functions in-house, such as supporting client records and reporting information.

The new enhancements include the ability to match the following instruments:

- Certificates of deposit and commercial paper
- Fixed deposits
- Sale and repurchase agreements
- FX swaps.

In addition, we have upgraded our straight-through processing (STP) capability to include a routing solution for exchange traded derivatives which are recorded on our Trade Services application.

If you would like further information on Trade Services, please contact your Northern Trust relationship manager.

Trade Services

Trade Services is a sophisticated, post-execution trade processing service incorporating high automation with real time, Web-based enquiry and reporting capability. The main components of our capability include:

- Trade receipt
- Trade communication
- Broker matching
- Foreign exchange matching
- Exception resolution
- STP evaluation
- Real time monitoring
- Trade enrichment.

In addition, we support all initiatives to improve the infrastructure of local markets and promote settlement efficiency.

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Round-up at Raffles

THE palm-fringed colonial splendour of the Raffles Hotel provided an impressive backdrop for Northern Trust's first investment manager forum in Singapore, held on July 12.

The aim of the forum was to introduce Northern Trust and our initiatives and goals to Singapore's business community as well as to explore current industry issues. Our agenda was compiled from feedback we had specifically requested from investment managers on the topics which would be of most interest to them.

The forum began with a welcome speech by Lawrence Au, Northern Trust's managing director for the Asia-Pacific region, followed by a series of presentations:

- Peter Holman presented Northern Trust's perspective on investment operations outsourcing. Peter is the head of our investment operations department and, in response to questions, offered his opinion on Asia's appetite for and approach to outsourcing.
- Ernst & Young representative Wilson Woo spoke about FRS32 and FRS39, an issue concerning many in the investment management community. Wilson discussed how the new accounting standards affect managers and their clients as well as specific issues faced by the industry.
- Kathleen Dugan, senior product manager, explained how Northern Trust's recent acquisition of Baring Asset Management's Financial Services Group had expanded our capabilities and demonstrated our commitment to the investment management community.
- Kevin Tan, Northern Trust's chief representative in China, presented on pension fund opportunities in China. Kevin's insight and understanding of this growing market was appreciated by the delegates.
- Other presentations covered Northern Trust product initiatives including reverse reconciliation, email reporting capabilities and foreign exchange.

> *"The forum was informative and facilitated a gathering of industry expertise for sharing each other's experiences."*
>
> Ling Sow Kheng, director, head of operations, Schroder Investment Management (Singapore) Ltd.

Positive feedback has been received from the delegates, who enjoyed this opportunity to meet with their industry peers as well as staff from Northern Trust. Northern Trust is the first global custodian to organise such a comprehensive forum in Singapore.

For further information on our services in Asia-Pacific, please contact Lawrence Au on +65 6437 6601 or lawrence_au@ntrs.com

Lawrence Au (left), managing director, Asia-Pacific region; Veronica Low (centre), assistant director, head of regional operations, Prudential Asset Management; Ling Sow Kheng (right), director, head of operations, Schroders Investment Management (Singapore) Ltd.

Guernsey funds sector reaches new high

TOTAL funds under management and administration in Guernsey reached a record value of £84.1 billion in June 2005, new figures released by the Guernsey Financial Services Commission reveal.

The figures represent growth of 11.2 per cent over the first quarter and a 12 month increase of 32.1 per cent.

The strong growth pattern is being largely led by the open-ended fund sector, which increased in value to £41.5 billion – 46.2 per cent higher than in June 2004.

Closed-end funds increased in value by £1.6 billion to £25.2 billion, an increase of 6.9 per cent over the quarter.

Non-Guernsey schemes for which some aspect of management or administration is conducted in the island, grew to £17.3 billion.

Meanwhile, Guernsey's new Qualifying Investor Fund (QIF) regime launched in February 2005 is attracting interest. The regime provides a fast-track authorisation process for open- and closed-ended funds restricted to professional, experienced and knowledgeable investors.

At the end of June, 12 QIF funds had been approved, of which six were open-ended funds and six were closed-ended vehicles.

Northern Trust International Fund Administration Services (Guernsey) Limited (formerly Guernsey International Fund Managers Limited) is one of the island's leading fund administrators.

For further information about Northern Trust's fund administration services in Guernsey, please contact David Tentinger on +44 (0) 1481 745001.