

MSCI COUNTRY CLASSIFICATION

ANALYSIS OF MSCI RECLASSIFICATION STUDY

We analyze the effects of MSCI's recently-announced index methodology changes.

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In January 2008 MSCI Barra published a discussion paper and launched a market study on appropriate criteria for the classification of Developed and Emerging Markets. As an active participant with index providers on benchmark construction issues, NTGI engaged in MSCI's market discussions. In June 2008 MSCI announced the results of its study and the following changes to its country classification methodology:

- The absence of major geo-political risk is no longer a necessary condition for classification as a Developed Market but will remain a factor as it relates to the sustainability of market accessibility and economic development.
- The full convertibility of currency will be considered together with other market accessibility criteria, rather than as a separate individual disqualifying criteria.
- Countries with fewer than three companies meeting the Emerging Markets size and liquidity standards for four consecutive Semi-Annual Index Reviews will be reclassified as Frontier Markets.
- Countries with restrictions on the inflow or outflow of capital that create significant obstacles to investment flows will be considered for reclassification to Frontier Markets.

The changes in methodology result in the following changes in country classification:

Country	Change/ Proposed Change	Factors
<i>Change Effective November 2008</i>		
Jordan	Emerging to Frontier	Failure to meet liquidity requirements
<i>Proposed</i>		
Israel	Emerging to Developed	Market Accessibility
Korea	Emerging to Developed	Market Accessibility, Currency Convertibility
Kuwait	Frontier to Emerging	Market Accessibility
Qatar	Frontier to Emerging	Market Accessibility
United Arab Emirates	Frontier to Emerging	Market Accessibility
<i>Pending Improvements by End of 2008</i>		
Argentina	Emerging to Frontier	Capital Restrictions
Colombia	Emerging to Frontier	Capital Restrictions

Notably Taiwan, which many investors view as a candidate for Developed Market status, will not be considered for reclassification in the near future.

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IMPACT TO DEVELOPED AND EMERGING MARKET INDEXES

At present, the demotion of Jordan from Emerging Market to Frontier Market status is the only definite change announced by MSCI and will have a relatively small effect on the composition of the Emerging Market Indexes. The current weight of Jordan in the Emerging Market Index is .08% (three companies).

The MSCI Consultation process for Israel, Korea, Kuwait, Qatar and United Arab Emirates (UAE) will begin in July 2008 with the final results announced in June 2009. After that time, implementation will likely happen over a period of twelve months. Though the proposed changes will not be implemented in the near term, the changes would have a significant effect on the composition of the Emerging Markets Index and would be the most significant change to the Emerging Market country composition as of yet. The most recent country changes within Emerging Markets were the promotion of Portugal and Greece to Developed status in 1997 and 2000, respectively.

Figure 1 demonstrates the regional weights of the MSCI Developed World ex.-U.S. Index if Israel and Korea graduate to Developed status. The most notable effect would be the increase in the Asia region as Korea would have an approximate weight of 3% in the Developed World ex.-U.S. Index.

	Current Weight (%)	Proforma Weight (%)	Difference (%)
Europe	62.07	60.43	-1.64
Asia	28.70	30.67	1.98
Canada	9.23	8.90	-0.33

Source: MSCI Barra, NTGI

Assuming that all proposed changes are implemented, the MSCI Emerging Market Index will experience the most significant change. The addition of Kuwait, Qatar and the UAE would be visible on a regional level with the weight of Europe, Middle East and Africa (EMEA) increasing from 26% to 30% of Emerging Markets (Figure 2). With Korea's absence, Asia's weight in the Index will decrease from 48% to 41%.

	Current Weight (%)	Proforma Weight (%)	Difference (%)
Europe	26.08	30.29	4.21
Asia	48.47	40.76	-7.71
Latin America	25.45	28.95	3.50

Source: MSCI Barra, NTGI

FRONTIER MARKETS — THE NEXT GENERATION OF EMERGING MARKETS

While there is no strict definition of Frontier Markets, they are often referred to as the next generation of Emerging Markets and are developing economies with high rates of GDP growth and underdeveloped, small, relatively illiquid equity markets. Index providers have begun tracking frontier markets and have recently launched various indexes (MSCI Frontier Markets, S&P Extended Frontier 150 Index). As evidenced by MSCI's announcement, a number of the Frontier Market countries will be considered for graduation to Emerging Market status (Kuwait, Qatar and the United Arab Emirates). We would expect this trend to continue.

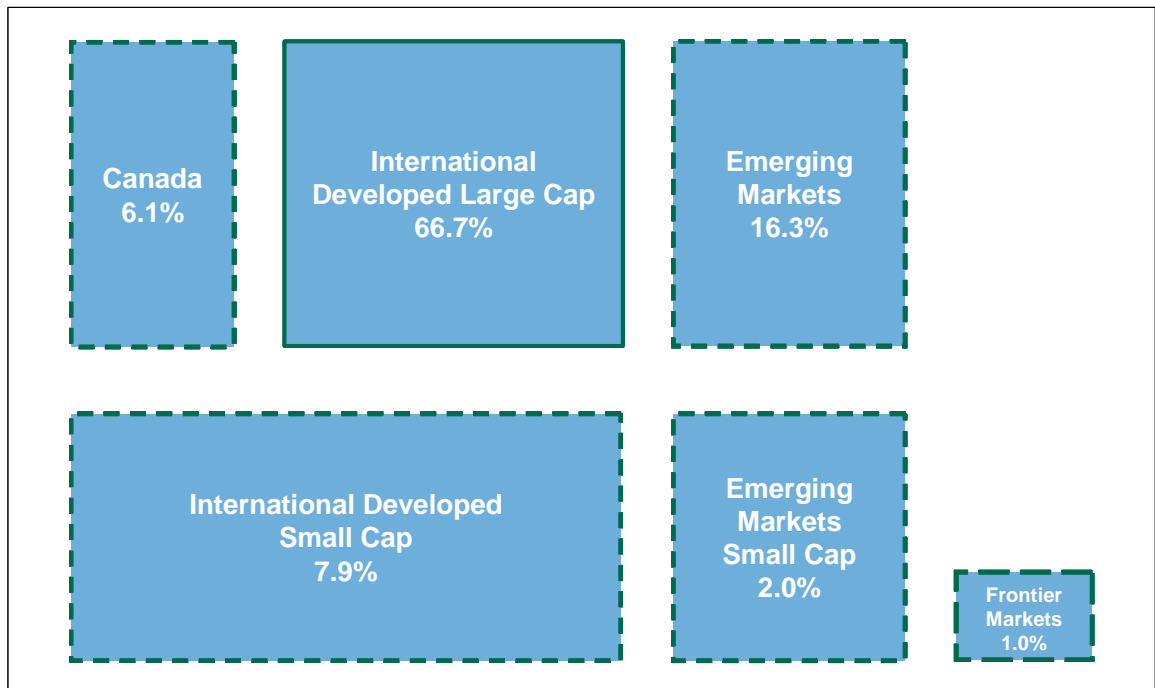
Frontier markets have recently received significant attention from the media and the investment community and are viewed by many as an attractive source of performance potential and diversification. Frontier markets have posted high returns in recent years and exhibit low correlations with developed markets. As this announcement demonstrates, emerging and frontier markets are dynamic asset classes. Investors holding emerging and frontier market equities may also benefit from the graduation of these countries to Developed or Emerging status.

INTEGRATED INTERNATIONAL EQUITY STRATEGY

At Northern Trust Global Investments we advocate a total integrated international equity strategy, such as one indexed to broad based benchmarks like MSCI ACWI IMI (Investable Market Index), which more accurately represents the global equity opportunity set. Investors holding a strategy such as the one shown in Figure 3, tend not to miss the performance and diversification benefits offered by non-US regions including Developed Markets, Emerging Markets and the large- and small-capitalization components of each market.

Figure 3.
Total Integrated International Equity Strategy

The integration of various sub-asset classes of international markets creates a more complete international equity allocation.



All of us at Northern Trust Global Investments look forward to working with you to effectively manage the MSCI index evolution. We also welcome discussions on general international equity benchmark decision. If you have any questions about the MSCI methodology or transition or are interested in discussing related index trading strategies, please contact your Investment Relationship Manager.

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