

INVESTMENT MANAGER SURVEY REPORT FOURTH QUARTER 2009

MANAGERS SHOW STABILIZATION OF SENTIMENT FOR MARKETS AND GLOBAL ECONOMIC CONDITIONS

January 2010

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The fourth quarter 2009 Northern Trust Global Advisors (NTGA) manager survey showed an overall stabilization of manager sentiment regarding both the market and global economic conditions. An increasing number of managers expect global growth levels to remain the same in the first half of 2010, while 76% still expect global growth to accelerate over that period. The outlook for corporate earnings remains positive, with 84% of managers expecting corporate earnings to increase in the first quarter of 2010. The number of managers anticipating no change to interest rates increased slightly in the fourth quarter, hinting at a realization that maintaining low rates will be a critical element of the economic recovery. Stabilization is also expected to extend to the housing market. The number of managers who see housing prices steady over the next six months is now at its highest point since the inception of the survey in the fourth quarter of 2008, with 61% of managers anticipating an end to home value declines.

MANAGERS SURVEY SUMMARY

The fourth quarter survey of external managers used by NTGA demonstrated a stabilization of manager sentiment in many areas. First, managers appear to be more comfortable with the level of market volatility. An increasing number of managers now foresee market volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), leveling off over the next six months. They also believe in future upside for the equity markets. Approximately 45% of NTGA managers consider the Standard & Poor's (S&P) 500 index to be undervalued. This is little changed from last quarter, implying the pace of returns in the market has become more reasonable. This quarter, we also asked managers for their views of Japanese and emerging market equities. While almost a majority views the Japanese equity market as appropriately valued, the remaining 37% of managers believe the market is undervalued. There was greater dispersion of responses with regards to emerging markets: 38% of managers believe the emerging market equities are overvalued, while 30% believe this market is undervalued. Despite these differences, investment opportunities appear plentiful, as more managers have moved to average or below average levels of cash this quarter. Less than 1% of managers were at or above their norm in the fourth quarter compared to 8% in the first quarter of 2009.

- 84% of managers expect corporate earnings to increase in the next three months.
- 76% expect global growth to accelerate in the next six months.
- 45% of managers still see room for market appreciation.

Corporate earnings were a second area consistent with third-quarter responses, as 84% of managers anticipate that corporate earnings will increase over the next three months. This is virtually unchanged from the third quarter. Managers continue to have conviction that strong companies can adjust to the changing economic environment. Similarly, a decreasing number – though still a majority at 76% – of managers expect global growth to accelerate over the next six months. This change came after the United States released third quarter gross domestic product (GDP) figures

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stating the economy grew at 3.5% rate in the quarter. (This figure was later revised down to 2.2%.) The return of U.S. GDP to positive territory is a critical element of the global growth story. In the fourth quarter, 76% of managers speculated that global growth would accelerate in the first half of 2010.

Finally, even fewer managers this quarter stated that they expect an increase in interest rates over the next three months. Approximately 77% of managers now predict that interest rates will remain unchanged in the first quarter of 2010. Managers are, however, keeping a close eye on inflation. In the fourth quarter, 45% of managers expressed that they expect global inflation to increase over the next six months. Although a small change, this is a directional change from the trend that occurred between the second and third quarters.

The following pages summarize the most notable responses from this quarter's survey. The results show a more consistent trend of manager opinions quarter-over-quarter. Managers generally remain optimistic, but there are some lingering concerns regarding inflation and the impact of a withdrawal of economic and monetary stimulus. These key issues are being watched closely by managers, but don't appear to pose an immediate threat to market stability.

MARKET VALUATION

Using the S&P 500 index as a proxy, there was only a minimal change in manager sentiment regarding the valuation of the U.S. market in the fourth quarter. This is in line with the market's slower pace of returns this quarter, after a strong surge in the third quarter. Approximately 45% of managers continue to believe the S&P 500 index is undervalued, which bodes well for future performance. This figure is down only 1% when compared to last quarter. There was, however, a slight decrease in the number of managers who

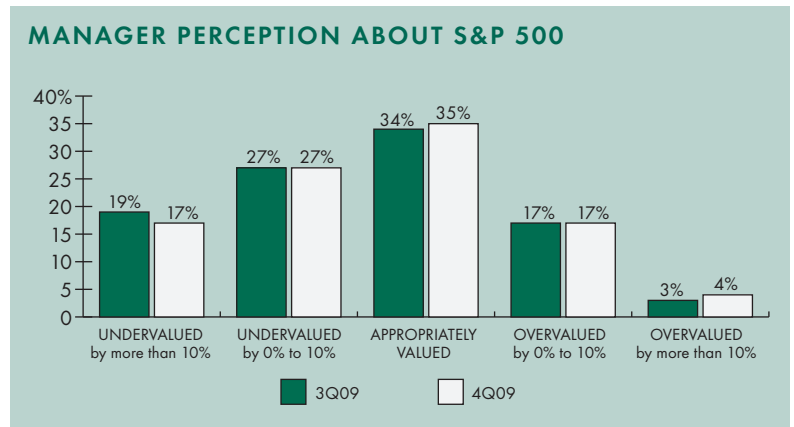
believe the S&P 500 is undervalued by more than 10%. This is likely a result of the continuing trend of positive returns for the index. There was also a slight uptick in the number of managers who view the market as overvalued. In these instances, it is thought that the index is now overvalued by more than 10%.

RISK AVERSION

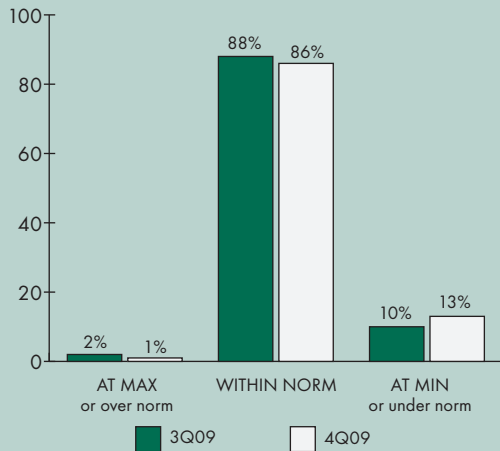
Results regarding risk aversion were relatively stable this quarter compared to third quarter. An increasing number of managers appear satisfied with the current risk levels of their portfolio. Fully 56% of managers now express a stable "no change in risk aversion" sentiment. Whereas 29% of managers were less risk-averse last quarter, only 25% of managers share the same view this quarter.

CASH HOLDINGS

The survey results reveal fairly stable cash levels for most managers, with some evidence of a reduction in cash for a select group of managers. The majority of managers, specifically 86%, continue to be working within their normal cash range. There is, however, an increase in managers who are working with a cash level that is at or under their historical minimum. In the fourth quarter, 13% stated they are at or below their typical minimum cash level, compared to 10% in the third quarter. This may be partly due to a less volatile market environment or a perception that there were more investment opportunities available during this time.



CASH LEVEL VS. 3 MOS. AGO



MANAGER RISK AVERSION VS. 3 MOS. AGO

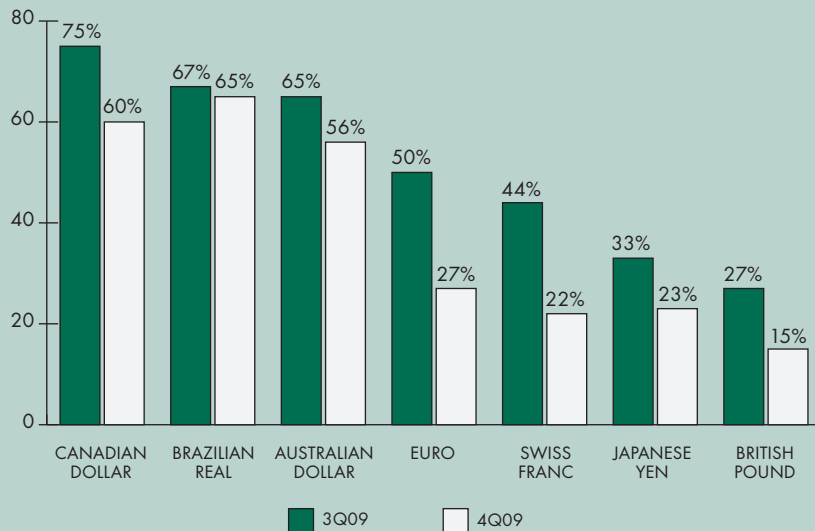


RANKED BROAD INVESTMENT OPPORTUNITIES

NTGA managers' ranking of investment opportunities was relatively unchanged versus the third quarter. U.S. large cap equities continue to top U.S. small cap equities and MSCI Europe, Australasia and Far East (EAFE) investments, despite the recent relative outperformance of U.S. large cap equities. MSCI EAFE investments also continue to be ranked above emerging markets investments despite the relative outperformance of EAFE investments. Private equity and hedge funds moved up in attractiveness, while non-U.S. bonds fell in the rankings.

RANK	4Q09 INVESTMENT	RANK RELATIVE TO 3Q09
1	U.S. Large Cap Equity	↔ No change
2	U.S. Small Cap Equity	↔ No change
3	MSCI EAFE	↔ No change
4	MSCI Emerging Markets	↔ No change
5	Commodities	↔ No change
6	Emerging Market Debt	↔ No change
7	Governments TIPS	↔ No change
8	Private Equity	↑ Higher
9	Non-U.S. Bonds	↓ Lower
10	Hedge Funds	↑ Higher
11	Other	↔ No change
12	BC Aggregate Bond	↓ Lower
13	Private Real Estate	↔ No change
14	U.S. Treasury (Cash)	↔ No change

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.

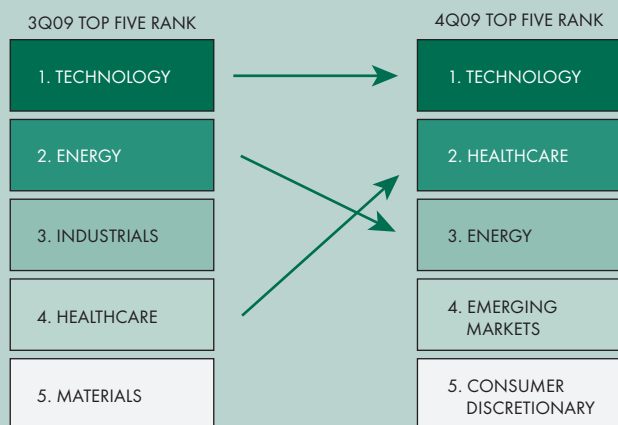
CURRENCY EXPECTATIONS

Similar to the third quarter, when managers were asked to pick which currencies they expected would appreciate relative to the U.S. dollar, those more closely tied to commodities, such as Brazil and Canada, ranked the highest. In the fourth quarter, however, there was a trend of fewer managers expecting appreciation of other currencies relative to the U.S. dollar. The drop was most notable for the euro, which only 27% of managers expect to appreciate relative to the U.S. dollar over the next six months. This is down meaningfully from 50% in the third quarter. There were double-digit declines for all currencies except the Brazilian real and the Australian dollar.

MOST ATTRACTIVE MARKET SEGMENTS

Digging deeper to more specific investment opportunities, when asked to cite the most attractive market segments, managers stated that technology is the top-ranking investment opportunity this quarter. Healthcare moved up from fourth place to second, and energy fell to third when compared to third quarter responses. There were also two new segments viewed as in the top five. Market segments considered more attractive this quarter than last quarter include emerging markets, which ranked fourth this quarter, and consumer discretionary, which returned to the top five after falling out in the third quarter.

MOST ATTRACTIVE MARKET SEGMENTS



CORPORATE EARNINGS

Managers remain optimistic about corporate earnings, as 84% believe corporate earnings will increase over the next three months. This is unchanged from the third quarter. Now, 11% of managers believe corporate earnings will remain the same in the quarter ahead, and only 6% believe that corporate earnings are at risk for declines.

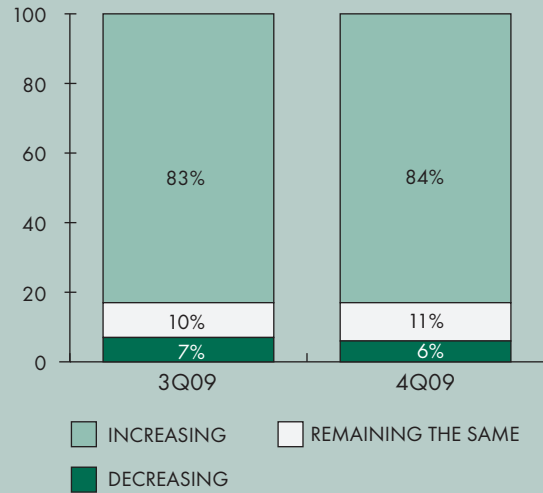
GLOBAL GROSS DOMESTIC PRODUCT

Optimistic expectations for accelerating global growth appear to be moderating somewhat. Approximately 76% of managers surveyed in the fourth quarter believe global GDP expectations will accelerate over the next six months. This is down notably from 84% in the third quarter. Fully 22% of managers now believe that global growth will remain the same for the next few months. This quarter we also see a small number of managers with less optimistic expectations, as seen in the 2% expecting a deceleration in global growth. In the third quarter there were no managers who held this belief.

GLOBAL INFLATION EXPECTATIONS

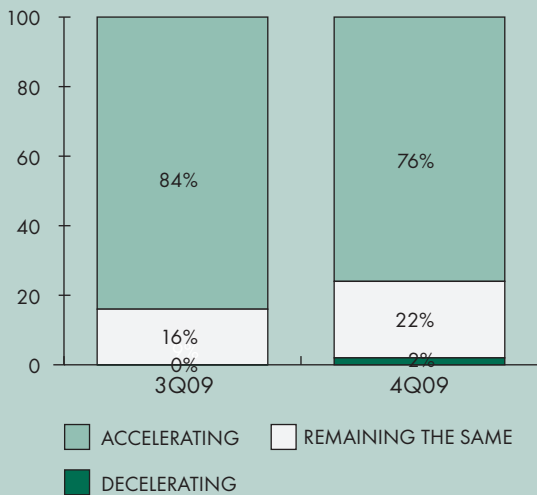
The proportion of managers expecting global inflation to increase in the next six months rose to 45% this quarter from 43% last quarter. This may signal a turning point, as the third quarter showed a decline in the percentage of managers expecting an increase in global inflation. With that said, the majority of managers expect inflation to remain unchanged through the first half of 2010.

CORPORATE EARNINGS EXPECTATIONS FOR THE NEXT 3 MOS. *

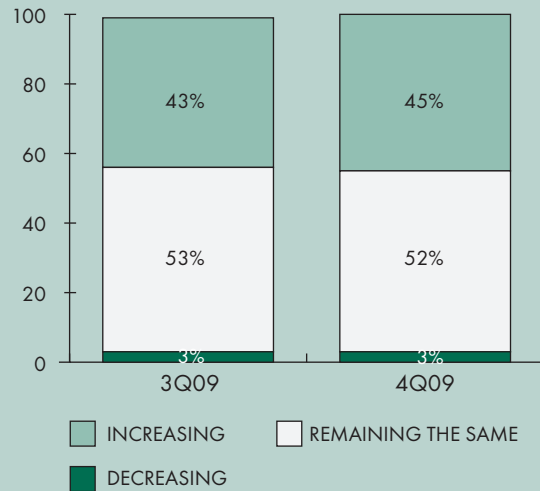


* Percentages will not add to 100% due to rounding.

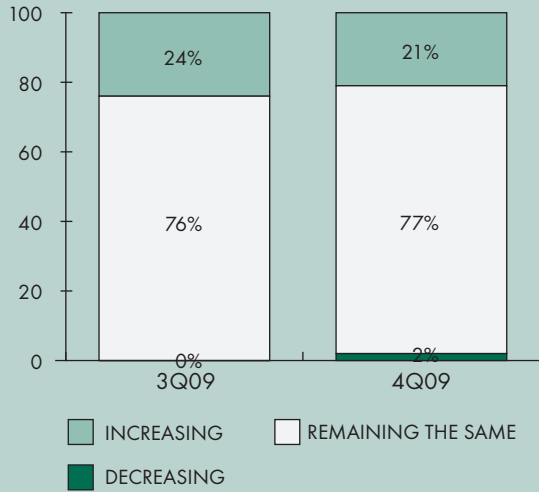
GLOBAL GDP EXPECTATIONS FOR THE NEXT 6 MOS.



GLOBAL INFLATION EXPECTATIONS FOR THE NEXT 6 MOS.



INTEREST RATE EXPECTATIONS FOR THE NEXT 3 MOS.



INTEREST RATE EXPECTATIONS

Interest rate expectations of the managers surveyed stayed largely unchanged in the fourth quarter. There was a small increase in the number of managers expecting interest rates to remain the same over the next three months. In addition, there was a 3% reduction in those who believe interest rates will increase over the next three months. These expectations were reinforced by minutes from the last Federal Open Market Committee meeting on December 16, when the committee stated that current economic conditions will likely warrant “exceptionally low levels of the federal funds rate for an extended period.”

MANAGER PERSPECTIVES

As 2009 came to a close, we asked managers for their opinion about what the greatest challenges and opportunities would be in 2010 and how they are positioning their portfolios as a result. The following represent a selection of responses from managers.

“We believe the greatest opportunities are with commodity-oriented companies which should benefit from an increase in demand to justify the run-up in commodity prices. We are overweight energy and materials. The wall of worry is still steep and we believe the view at the top will be worth the climb. There are still an overwhelming number of naysayers who have not participated to a wide degree and have dismissed the run-up as a “junk rally.” As one sorts through the stocks that have gone up, not all fit that category. Some are solid companies that have had solid growth prospects historically which have been dimmed by the recent economic malaise. As the storm clouds clear, the growth prospects will be highlighted once again. We believe investors will more appropriately value companies in this environment.”

– **Marc Sydnor, director of client services,
Atlanta Life Investment Advisors**

“The biggest opportunity is that as asset correlations come down, stock selection will become more important. The biggest challenge is going to be grappling with the impending rise in interest rates.”

– **Lidney Motch, director of client service,
Copper Rock Capital Partners**

We also asked managers about their expectations for a global market and economic recovery in the coming year. The following represent a selection of their responses.

“There is a possibility for a very strong economic recovery in 2010 that in our estimation would result in an upside surprise for the market. Our portfolio is positioned in technology companies that should benefit from increased capital spending from very suppressed levels, and a rebounding consumer. Challenges include additional government activism and regulation, expiration of the Bush tax cuts, a rapidly deteriorating dollar, etc.”

– **Kelly Thomson, managing partner,
Magee Thomson Investment Partners, LLC**

“The major challenge and opportunity for 2010 is the pace and strength of economic growth. Now that government intervention and improved liquidity have added stability to the financial system, we have to get working again. We believe that economies are positioned for a robust growth profile but it may be at a more muted pace than normal given the leverage of consumer balance sheets, and a banking system that is more defensive. The second challenge will be balancing the removal of excess liquidity without short-circuiting the recovery or creating incremental inflation.”

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

“One of the biggest threats to continued economic stabilization and growth into 2010 is the opening of the credit markets to U.S. small businesses, and by this I don’t mean public small cap companies, I mean two- to 100-employee private companies. This segment of the market continues to reel from the credit dislocation and banks backing away from making these types of loans. This void has to be filled to get this huge segment of our economy willing to invest again.”

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

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.

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Northern Trust Global Advisors is a leading provider of multi-manager investment solutions, with \$33 billion under management for institutional and personal clients as of September 30, 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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