

SECOND QUARTER 2011 SUMMARY



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RUSSELL RECONSTITUTION 2011

The annual Russell Index rebalance occurred at the close of trading on June 24, 2011. Unlike the previous few years, there were few changes to the Russell methodology, leading to minimal impact on the overall turnover from the rebalance. The most notable changes this year were the introduction of new factors used to determine the growth and value classification and the implementation of banding for the style indexes. While there were some large, well-known names involved in the rebalance, the overall turnover for the Russell 3000 was 4.13% versus 7.4% in 2010.

Significant Company Changes

Since Russell began adding new IPOs on a quarterly basis, the number of additions to the Russell 1000 at the rebalance has declined. However, Russell's methodology only allows adding IPOs to the index outside of the annual review. As a result, companies that relist following bankruptcy are ineligible for inclusion until June. General Motors (GM) was eligible and was the largest addition to the Russell 1000 this year. Weatherford (WFT), which was returned to the Russell indexes in 2010, was removed from the index because it was no longer considered a U.S. company.

Russell Index Growth/Value Factor Change

Russell made no changes to the value factor and will continue using price-to-book as the value indicator. For the growth indicator, the IBES long-term growth estimate has been replaced with the IBES medium-term growth estimate and the five-year historical sales-per-share growth. The long-term growth estimate was retired due to a lack of analyst coverage. The five-year historical sales growth number is a reported number not reliant upon analysts; the medium-term growth estimates from IBES provide broader coverage of the Russell 3000.

In addition to the factor change, a banding process between the growth and value indexes was introduced to reduce turnover between the indexes. Each company's composite value score, calculated using the growth and value factors, will be compared to the previous year's score to determine if there is a significant change. The goal of the rule change is to identify companies that have actually shifted styles and avoid changing a company's classification every year for minor changes. As a result of the bands, both the Russell 1000 and Russell 2000 growth and value index turnover was lower this year than in previous years, seen in Figure 1.



Developing the appropriate implementation strategy is a crucial factor in the success or failure of the annual Russell reconstitution.

Turnover Summary

The Russell core indexes had no significant methodology changes this year, and the turnover figures were lower than in 2010. In 2010, several large companies were added to the indexes due to the change in the country classifications, which inflated the turnover in the Russell 1000 in 2010. The Russell 2000 turnover for this year was in line with previous years.

Reconstitution Day Performance

On the effective date, the performance of almost all the individual pieces of the trade moved in the opposite direction of index demand. The additions, which are expected to increase, decreased; the deletions, which are expected to decrease, increased. The Russell 1000 deletions were the sole exception, performing as expected, below the Russell 1000 index. The Russell 1000 additions and the Russell 2000 additions underperformed the index, while the Russell 2000 deletions had positive performance versus the index. This was the first time in the last few years that the overall rebalance went the “wrong way.” The implication of the “wrong-way flow” is that short interest in the Russell indexes has increased. In addition, we typically expect non-index managers, such as hedge funds and proprietary trading desks, to attempt to anticipate index manager trading activity and participate in the trade. In 2010, the relatively flat performance of the various index buckets on the rebalance date led us to believe that many of these non-index managers avoided the trade. From the “wrong-way” performance this year, one could conclude that the interest in the Russell reconstitution trade has grown. The increased interest, along with more short positions, are not mutually exclusive and could have caused the wrong-way flow.

As the marketplace and participant interest continue to evolve, developing the appropriate implementation strategy is a crucial factor in the success or failure of the annual Russell reconstitution.

FIGURE 1. RUSSELL INDEX TURNOVER COMPARISON

Index	2011 Turnover	2010 Turnover	2009 Turnover
Russell 3000	4.1%	7.4%	3.3%
Russell 1000	4.5%	7.8%	3.9%
Russell 1000 Growth	32.5%	46.2%	36.3%
Russell 1000 Value	33.0%	46.1%	39.8%
Russell 2000	19.1%	19.0%	24.8%
Russell 2000 Growth	51.9%	55.5%	58.8%
Russell 2000 Value	42.0%	47.9%	54.0%
Russell SC Completeness	12.1%	21.2%	7.8%

FIGURE 2. RUSSELL INDEX PERFORMANCE

Basket	# of Stocks	Return 2011	Return 2010	Return 2009
R1 Additions	14	- 1.36%	2.43%	- 3.27%
R1 Deletions	2	- 1.68%	0.44%	- 7.81%
R2 Additions	172	- 1.44%	1.82%	8.80%
R2 Deletions	104	1.07%	- 0.49%	- 13.20%
R1 -> R2	25	- 1.65%	1.30%	7.86%
R2 -> R1	36	- 0.92%	0.21%	- 5.24%

MSCI ANNOUNCEMENT ON COUNTRY CLASSIFICATION

On June 21, 2011, MSCI announced the results of its annual country classification review. The review was the culmination of input from institutional investors in the global marketplace. Northern Trust was among the asset managers that MSCI engaged to help shape the discussion and provide feedback.

As a result of the consultation, Korea and Taiwan will remain classified as Emerging Market countries. Qatar and UAE were under review in the 2011 consultation as potentially graduating to Emerging Market status from Frontier Market status. The June announcement stated that MSCI will extend the review for Qatar and UAE to December 2011.

MSCI's Market Classification Framework

MSCI approaches market classification by focusing on three criteria: economic development, market size and liquidity and market accessibility. The chart below summarizes the various the criteria used to determine the classification of a country.

FIGURE 3. MSCI COUNTRY CLASSIFICATION FRAMEWORK

	DEVELOPED	EMERGING	FRONTIER
Economic Development			
Sustainability of economic development	Country GNI per capita 25% above the World Bank high income threshold for 3 consecutive years	No requirement	No requirement
Market Size and Liquidity Requirements			
Number of companies meeting the following standard index criteria	5	3	2
Company size (total market cap)	USD 2020 mm	USD 1010 mm	USD 505 mm
Security size (float adjusted market cap)	USD 1010 mm	USD 505 mm	USD 35 mm
Security Liquidity	20% ATVR	15% ATVR	15% ATVR
Market Accessibility			
Openness to foreign ownership	Very High	Significant	At least some
Ease of capital inflows/outflows	Very High	Significant	At least partial
Efficiency of the operational framework	Very High	Good and tested	Modest
Stability of the institutional framework	Very High	Modest	Modest

Source: MSCI, size requirements as of the May 2011 semi-annual rebalance

Korea and Taiwan Classification

While Korea and Taiwan meet the economic development and market size and liquidity requirements for Developed Market status, accessibility issues exist in both markets resulting in their Emerging Market status. In particular, MSCI notes that the lack of full currency convertibility and the absence of active off-shore currency markets, along with the issues linked to the rigidity of the ID systems, remains a hurdle.

MSCI notes that in Korea, some measures are in place to alleviate frictions and inefficiencies resulting from the lack of full currency convertibility and the ID system. However, the international institutional investment community indicated via its consultation exercise that limited improvements occurred in the marketplace despite these measures.

Korea and Taiwan will remain under review for potential reclassification to Developed Markets as part of the 2012 annual review, with those results to be released in June 2012.

The objective of the MSCI semi-annual index reviews is to reflect changes in market structure due to performance, IPOs, de-listings and corporate events.

Qatar and UAE Classification

MSCI announced that it will extend the review period for the potential graduation of Qatar and UAE until December 2011, allowing institutional investors more time to assess the recent changes to the operational frameworks in these markets. In May this year, the Qatar Exchange, Dubai Financial Market and Abu Dhabi Securities Exchange introduced new delivery versus payment (DVP) models that are expected to guarantee the safeguarding of investors' assets and allow for the elimination of dual account structures.

In addition to the operational framework concerns, MSCI noted that the institutional marketplace remains concerned by the stringent foreign ownership limits and limited availability of shares to foreign investors in both Qatar and UAE. MSCI cited the example of Industries Qatar, one of the largest companies and one in which Qatar has almost reached its foreign ownership limit, making it un-investable to the foreign market. Under the current conditions, Qatar would not be eligible for Emerging Market classification.

SUMMARY OF MSCI SEMI-ANNUAL REVIEW – MAY 2011

The objective of the MSCI semi-annual index reviews is to reflect changes in market structure due to performance, IPOs, de-listings and corporate events. Based on the new market size-segment cutoffs, current constituents were re-weighted and newly eligible companies were identified. This resulted in additions, deletions, float and share changes to the indexes effective on the close of Tuesday, May 31, 2011.

MSCI Developed World Summary

Based on the review, 24 companies were added to the World Index and 41 were deleted, resulting in one-way turnover of 1.0%. Of the 24 additions, 13 were in the North American region, eight were in Europe and three were in Asia Pacific. Iluka Resources was the largest company added to the index with a weight of 0.37% in the MSCI World Index. The next two largest additions to the MSCI World Index – Lynas Corporation and Galaxy Entertainment – were migrations from the MSCI World Small Cap index.

Novartis, the Swiss healthcare company, had a share and float factor increase as result of its acquisition of Alcon and, therefore, was the largest increase during the review. On a net basis, the number of constituents in the MSCI World Index decreased by 17 names to 1,639, with a new market capitalization of \$25.3 trillion USD, a 0.32% increase.

The MSCI World Small Cap Index saw 282 security additions and 129 deletions, resulting in one-way index turnover of 5.3% and a 2.4% increase in market capitalization. Of the 281 additions, 128 were in North America, 93 in Asia Pacific and 61 in Europe and the Middle East. On a net basis, the number of constituents in the MSCI World Small Cap Index increased by 153 names to 4,700 securities with a market capitalization of \$4.2 trillion USD.

MSCI Emerging Market Summary

In the Emerging Markets Index, 30 securities were added and 16 deleted, resulting in one-way index turnover of 2.0% and a 1.0% increase in market capitalization. Of the 30 additions, 23 were from the Asia Pacific region, while none were from Latin America and seven were from Europe and the Middle East. The largest additions were Barloworld (South Africa) at 0.30%, Life Healthcare Group (South Africa) at 0.23% and OJSC LSR Group GDR (Russia) at 0.22%. As a result of the review, the number of constituents in the emerging markets index increased by 14 names to 824 securities, with a new market capitalization of \$4.1 trillion USD.

There were 182 security additions to and 135 deletions from the Emerging Markets Small Cap Index, resulting in one-way index turnover of 11%. Of the 182 additions, 141 were in the emerging markets of Asia, 14 in Latin America and 27 in Europe and the Middle East. The largest individual additions to Emerging Market Small Cap Index were Desarrolladora Homex (Mexico) at +1.77% and Murray & Roberts Hldgs (South Africa) at +1.48%. On a net basis, the number of constituents in the MSCI Emerging Markets Index increased by 47 names to 1,993 securities, with a new market capitalization of \$560 billion USD, representing a 7.4% increase.

FIGURE 4. NASDAQ 100 LARGEST REWEIGHTINGS

Company	Initial Weight	Rebalance Weight	Weight Change
AAPL	20.49%	12.33%	- 8.16%
MSFT	3.41%	8.32%	4.91%
ORCL	3.32%	6.68%	3.36%
INTC	1.75%	4.20%	2.45%
CSCO	1.56%	3.66%	2.10%
GOOG	4.18%	5.77%	1.59%
QCOM	5.00%	3.48%	- 1.52%
AMGN	1.07%	1.92%	0.85%
SBUX	1.79%	1.08%	- 0.71%
AMZN	2.50%	3.16%	0.66%
DELL	0.47%	1.08%	0.61%

Source: NASDAQ

FIGURE 5. REBOUND SUMMARY

	# of Names	Return since 4/4/11	Return 4/29/11
Increase	18	5.05%	0.18%
Decrease	82	3.15%	- 0.33%
NASDAQ 100		2.98%	- 0.24%

NASDAQ 100 MODIFIES COMPANY WEIGHTS IN SPECIAL REBALANCE

The NASDAQ 100 is a modified market-capitalization index with the 100 largest non-financial companies listed on the NASDAQ market. The modification to the index weights was introduced in 1998 so that the NASDAQ 100 would meet the Regulated Investment Company diversification rules set by the IRS. These initial weighting factors have not been adjusted since their initial calculation. A company added since 1998 was added with an adjusted market capitalization that would place it at the same rank as its unadjusted market capitalization.

The index was reweighted in a special rebalance at the end of April 2011. NASDAQ stated that it was enacting the rebalance because the weighting adjustments set in 1998 had skewed the ranks of the companies in the index, and their adjusted rank in the index had deviated too far from the unadjusted rank. No other changes were included in this rebalance.

Apple Inc.'s weight was the largest change, starting at more than 20% and being adjusted to approximately 12%. Based on the rebalance, 82 of the 100 index members had a weight decrease. Figure 4 shows the largest 11 weight changes.

On the day of the rebalance, the weight increases were up slightly and the decreases were down slightly, but based on the liquidity of the names involved, there was little impact on the overall stock movement.

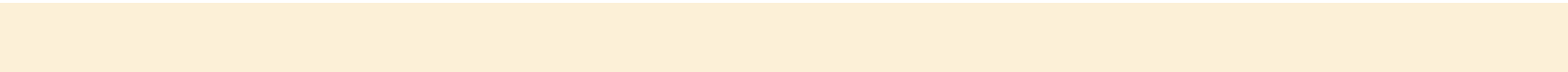
Northern Trust Global Investments – Global Index Management

All of us at Northern Trust Global Investments look forward to working with you to effectively manage the index rebalances and benchmark changes indicated above. We also welcome discussions on general benchmark information and would be delighted to share the details of our research on each index series. For more information, please contact the Global Index Management team at: global_index_strategy@ntrs.com.

SECOND QUARTER 2011 MARKET SUMMARY AS OF JUNE 30, 2011

	U.S. Dollar Return Net Total Return %	
	QTD	Trailing 1 Year
U.S. Equities		
S&P 500	0.10	30.69
S&P 400	- 0.73	39.38
S&P 600	- 0.16	37.03
Russell 1000	0.12	31.94
Russell 2000	- 1.61	37.41
Russell 3000	- 0.03	32.37
Russell 3000 Growth	0.64	35.68
Russell 3000 Value	- 0.68	29.13
Dow Jones Total Market Index	- 0.01	32.44
Global Equities		
MSCI World	0.47	30.51
MSCI EAFE	1.56	30.36
MSCI Europe ex. UK	2.77	36.93
MSCI United Kingdom	1.73	34.08
MSCI Asia Pacific ex. Japan	- 0.24	35.57
MSCI Japan	0.18	13.01
MSCI Emerging Markets	- 1.15	27.80
MSCI ACWI	0.25	30.14
MSCI ACWI ex. US	0.38	29.73
MSCI ACWI ex. US IMI	0.29	30.26
MSCI Developed Market ex. US Small Cap	- 0.16	37.05
MSCI Emerging Market Small Cap	- 1.00	25.22
S&P Frontier Market Extended 150	- 0.55	16.74
Alternatives Benchmarks		
FTSE EPRA/NAREIT Global Index	2.29	31.19
Dow Jones-UBS Commodity Index	- 6.74	25.76
U.S. Fixed Income		
BC Aggregate	2.29	3.90
BC Govt/Credit	2.32	3.68
BC Govt/Credit Intermediate	2.12	3.77
BC High Yield 2% Cap	1.05	15.53
BC TIPS	3.66	7.74
Global Fixed Income		
BC Global Aggregate	3.10	10.51
BC Global Emerging Markets	3.36	14.28
BC 1- to 3-Month T-Bills	0.02	0.14

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



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