

INVESTMENT MANAGER SURVEY REPORT FIRST QUARTER 2010

MANAGERS REMAIN OPTIMISTIC; CONCERNED ABOUT VOLATILITY, INTEREST RATES

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The first quarter 2010 Northern Trust Global Advisors manager survey showed some changes in manager sentiment regarding both the market and global economic conditions. While most managers remain optimistic overall, there are some concerns about increased market volatility and higher interest rates. This quarter, an increasing number of managers expect global growth levels to remain the same over the next six months, while 61% still expect global growth to accelerate over that period. The outlook for corporate earnings has become increasingly positive, with 87% of managers expecting corporate earnings to increase in the second quarter. The number of managers anticipating an increase in interest rates increased notably in the first quarter. Although 61% of managers believe there has been no change in the risk of commercial real estate values falling, results were more mixed with regard to expectations for housing prices. The majority of managers now expect market volatility to increase, a shift from fourth quarter where the majority expected volatility to stabilize over the next six months.

FIRST QUARTER 2010 MANAGER SURVEY

The first quarter survey of external managers used by Northern Trust Global Advisors (NTGA) demonstrated some changes in manager sentiment regarding both the market and global economic conditions. First, managers appear more concerned about the level of market volatility

- 87% of managers expect corporate earnings to increase in the next three months.
- 61% expect global growth to accelerate in the next six months.
- 32% of managers anticipate a rise in interest rates in the next quarter.
- 46% of managers still see room for market appreciation.

over the short term. An increasing number now foresee market volatility, as measured by the Volatility Index (VIX), increasing over the next six months. Despite these concerns, they continue to believe in future upside for the equity markets. Approximately 46% of managers consider the Standard & Poor's (S&P) 500 index to be undervalued. This is little changed from last quarter, implying managers remain optimistic about market return potential. With regards to international markets, there was a meaningful increase in the number of managers who see upside in the Japanese equity market. The majority of managers now view the Japanese equity market to be undervalued, while 15% fewer managers believe the market is appropriately valued. The change of managers' opinions of emerging markets was more subtle. There was a slight increase in the percentage of managers who believe emerging market equities are undervalued and no change in the number that believes the market is overvalued. Although they see potential upside in

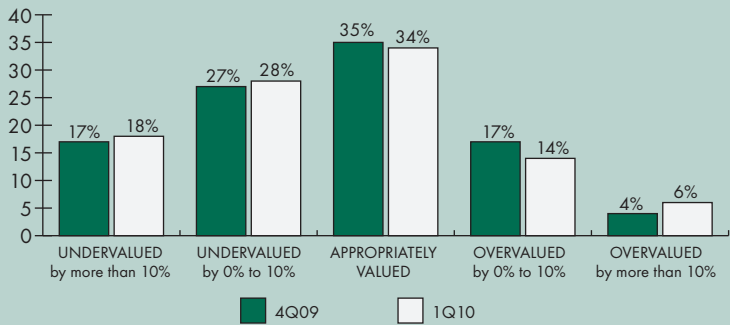
the markets, some managers have moved to above-average levels of cash this quarter. More than 10% of managers were over their normal cash level in the first quarter compared to only 1% in the fourth quarter of 2009.

An area where manager responses have become increasingly positive is regarding corporate earnings. Fully 87% of managers anticipate that corporate earnings will increase over the next three months. This is up 3% from the fourth quarter. Managers continue to have conviction that

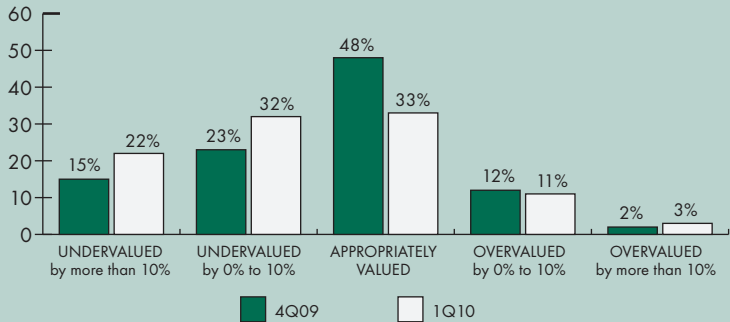
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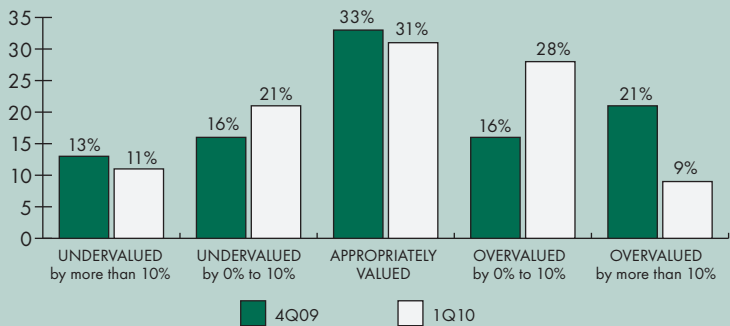
MANAGER PERCEPTION ABOUT S&P 500



MANAGER PERCEPTION ABOUT JAPANESE EQUITIES



MANAGER PERCEPTION ABOUT EMERGING MARKET EQUITIES



ately valued. There was no change quarter over quarter in the number of managers who believe the market is overvalued.

strong companies can adjust to the changing economic environment. A decreasing number, though still a majority of managers, expect global growth to accelerate over the next six months. In the first quarter, 61% of managers predicted that global growth would accelerate compared to 76% in the fourth quarter.

This quarter, more managers stated that they expect an increase in interest rates over the next three months. Approximately 32% of managers now anticipate that interest rates will increase in the second quarter of 2010, while 66% expect rates to remain unchanged. Managers' views on inflation were virtually unchanged this quarter. The majority of managers expect global inflation to remain stable over the next six months. Finally, when asked about expectations for merger and acquisitions (M&A) activity in the coming quarters, 91% of managers stated that they expect M&A activity to increase.

The following pages summarize the most notable responses from this quarter's survey. The results show some changes in the trend of manager opinions quarter over quarter, but overall managers generally remain optimistic. There are, however, some concerns regarding the potential for higher market volatility and higher interest rates and the impact this will have on the economic recovery.

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 first quarter. Approximately 46% of managers believe the S&P 500 index is undervalued, which bodes well for future performance. This figure is up 1% when compared to last quarter. The number of managers who believe the S&P 500 is undervalued by more than 10% was virtually unchanged quarter over quarter. While there was no change in the overall percentage of managers who view the market as overvalued, there was, however, a 2% increase in managers who now believe the market is overvalued by more than 10%. This is in line with the market's positive trend year to date.

In the first quarter, approximately 53% of managers surveyed said they believe Japanese equities to be undervalued. This is a meaningful increase from 38% last quarter. Now, 33% of managers believe that the Japanese equity market is appropri-

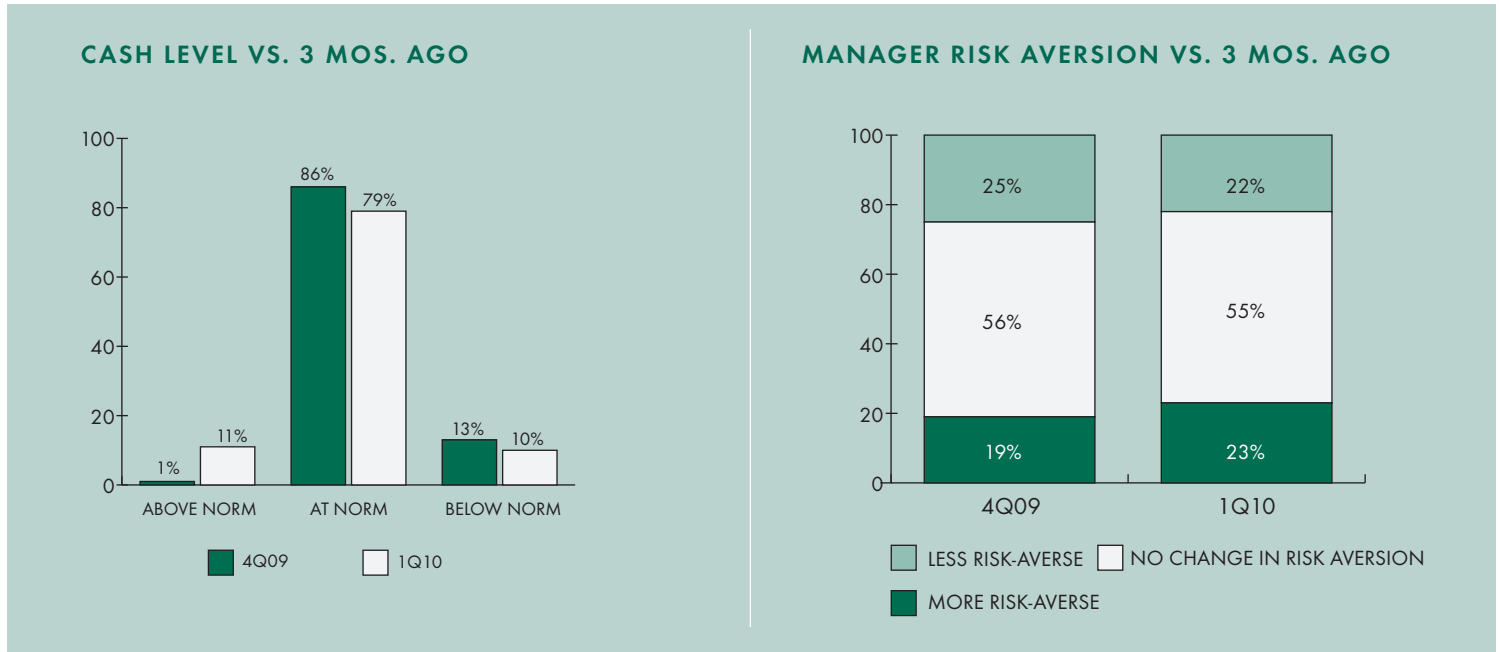
In the first quarter there was a 2% increase in the percentage of managers that believe emerging market equities are undervalued. The number of managers who believe emerging markets are overvalued is unchanged from the fourth quarter. This implies that there is still upside in these markets, despite their underperformance year to date.

RISK AVERSION

Results regarding risk aversion were relatively stable this quarter compared to the fourth quarter, with a slight increase in the number of managers expressing a more risk-averse view. Overall, most managers continue to be satisfied with the current risk levels of their portfolio. Fully 55% of managers expressed a stable “no change in risk aversion” sentiment. This quarter, however, 23% of managers described themselves as more risk-averse, an increase of 4% from last quarter.

CASH HOLDINGS

The survey results reveal fairly stable cash levels for most managers, with some evidence of an increase in cash for a select group of managers. The majority of managers, specifically 79%, continue to be working within their normal cash range. There is, however, an increase in managers that are working with a cash level that is above their historical norm. In the first quarter, 11% stated they are above their typical cash level compared to 1% in the fourth quarter. This may be partly due to managers’ concerns regarding the uncertainty of future market movements.

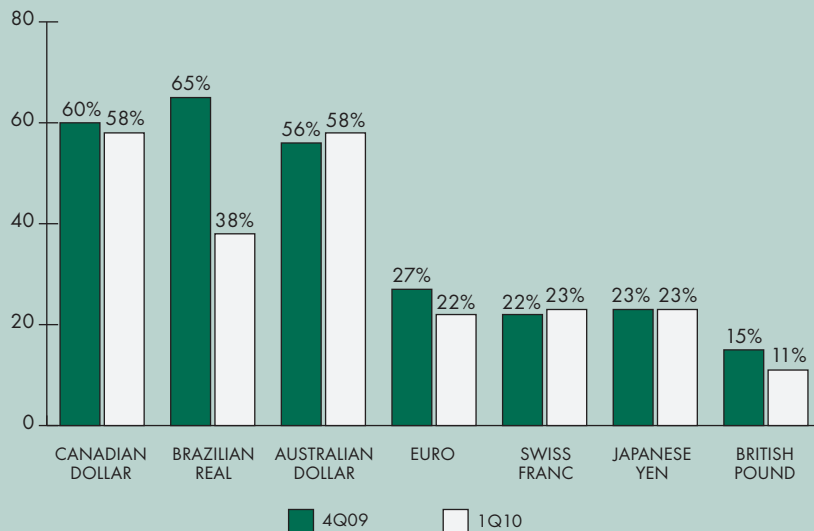


RANKED BROAD INVESTMENT OPPORTUNITIES

Managers' ranking of investment opportunities was fairly stable quarter over quarter. The highest ranked investment opportunities remain U.S. large cap equity, U.S. small cap equity, MSCI EAFE investments, MSCI emerging markets and commodities. Hedge funds and private real estate moved up in attractiveness, while emerging market debt, government TIPS and non-U.S. bonds fell in the rankings.

RANK	1Q10 INVESTMENT	RANK RELATIVE TO 4Q09
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	Hedge Funds	↑ Higher
7	Emerging Market Debt	↓ Lower
8	Private Equity	↔ No change
9	Other	↑ Higher
10	Governments TIPS	↓ Lower
11	Non-U.S. Bonds	↓ Lower
12	Private Real Estate	↑ Higher
13	Aggregate Bond Index	↓ Lower
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

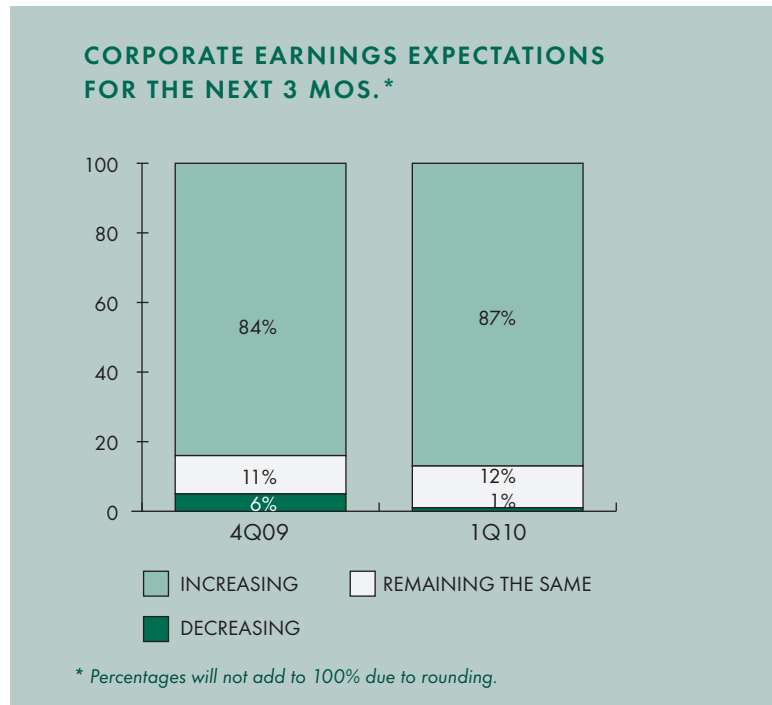
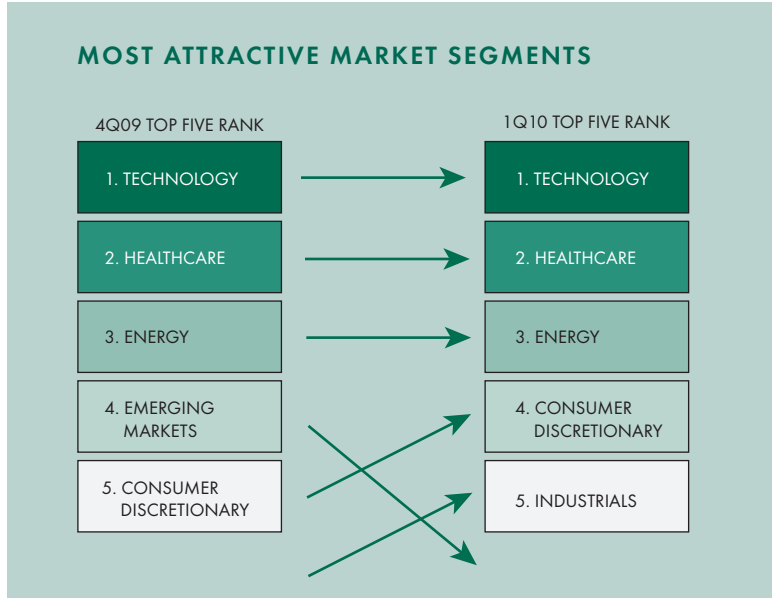
There were a few changes to managers' currency expectations in the first quarter. Similar to the fourth quarter, the majority of managers expect both the Canadian dollar and Australian dollar to appreciate relative to the U.S. dollar. There was a significant drop, however, in the number of managers expecting the Brazilian real to appreciate relative to the U.S. dollar. Fully 38% of managers expect the Brazilian real to appreciate, compared to 65% in the fourth quarter. The euro and pound experienced a decrease in the number of managers expecting these currencies to appreciate. The Australian dollar and Swiss franc were the only currencies to see an increase in the quarter.

MOST ATTRACTIVE MARKET SEGMENTS

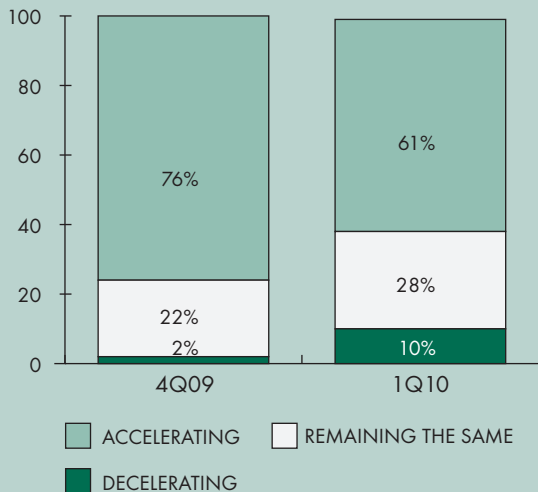
When asked to cite the most attractive market segments, managers stated that technology, health care and energy are their top-ranking investment opportunities this quarter. This is unchanged from the fourth quarter. Consumer discretionary moved up to fourth place from fifth. Industrials returned to the top five after falling out in the fourth quarter. Emerging markets, which ranked fourth last quarter, fell out of the top five this quarter.

CORPORATE EARNINGS

Managers appear to be even more optimistic with regards to corporate earnings. Fully 87% of managers believe that corporate earnings will increase over the next three months, compared to 84% in the fourth quarter. And 12% of managers believe corporate earnings will remain the same in the quarter ahead. The biggest change was seen in the number of managers that believe that corporate earnings are at risk for declines. Currently, only 1% of managers are now concerned that earnings will decline in the next three months, down from 6% last quarter.

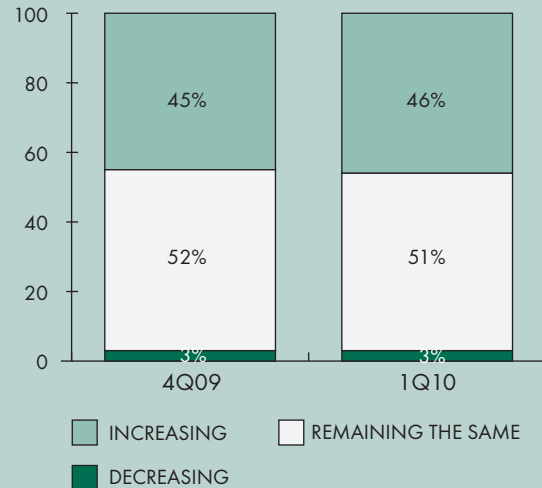


GLOBAL GDP EXPECTATIONS FOR THE NEXT 6 MOS.



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

GLOBAL INFLATION EXPECTATIONS FOR THE NEXT 6 MOS.



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

GLOBAL GROSS DOMESTIC PRODUCT

Optimistic expectations for accelerating global growth continue to moderate. Approximately 61% of managers currently believe global growth will accelerate over the next six months. This is down notably from 76% in the fourth quarter and 84% in the third quarter. Some 28% of managers now believe that global growth will remain the same for the next six months. This quarter we also observed an increase in the number of managers with less optimistic expectations, as 10% of managers expect global growth to decelerate, compared to 2% in the fourth quarter.

GLOBAL INFLATION EXPECTATIONS

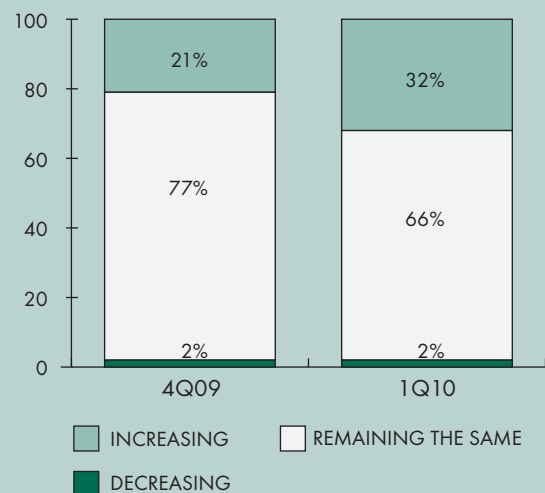
The proportion of managers expecting global inflation to increase moved up slightly to 46% this quarter. This is a continuation of the trend observed last quarter. The majority of managers, however, expect inflation to remain unchanged over the next six months. Only 3% of managers expect global inflation to decrease. This is unchanged from the fourth quarter.

INTEREST RATE EXPECTATIONS

In the first quarter, there was a shift in manager sentiment regarding interest rate expectations.

There was an 11% increase in the number of managers that believe interest rates will increase over the next three months. Specifically, 32% of the managers surveyed stated they expect interest rates to increase, compared to 21% in the fourth quarter. As a result of this shift, 66% of managers now expect interest rates to remain unchanged in the upcoming quarter.

INTEREST RATE EXPECTATIONS FOR THE NEXT 3 MOS.



MANAGER PERSPECTIVES

This quarter we asked managers to share with us any non-consensus views they have currently. The following represent a selection of responses from managers:

“We think the long-term earnings potential of companies with meaningful exposure to the U.S. housing market is underappreciated. The current pace of homes built and sold is well below the normalized demand needed to account for population growth and obsolescence. While foreclosures will create some overhang, new home inventories continue to fall and are extremely low relative to normalized demand. Home prices should have positive year-over-year growth in the second half of 2010. We own several companies that have various levels of exposure to new home sales (both direct and indirect) and expect improving fundamentals to be reflected in prices over the next 12 to 24 months.”

**– Leo Harmon, CFA, Managing Director,
Fiduciary Management Associates, LLC**

“While some investors are starting to get more aggressive regarding financial service companies, we are still underweight in our portfolio by almost the greatest percentage weight allowable via our portfolio parameters. While we do believe fundamentals will improve in general, we are not of the mind that the level of growth and returns (using ROE as an example) are supportive of the valuations, which already reflect a high degree of optimism. The companies will not be able to replicate the engines of growth that precipitated the financial crisis and we think that eventually disappointment regarding actual outcomes will turn optimism to lowered enthusiasm, which may drive stock prices lower.”

**– Melissa Craig, Director of Marketing,
Atlanta Life Investment Advisors**

We also asked managers to share any additional thoughts on the market or the economy. The following represents a selection of their responses:

“The euro region is likely to support Greece in the short term to avoid a contagion effect. However, this situation does highlight the difficulty of multiple countries operating with the same currency. We have focused on investing in European companies that have large emerging market exposure to participate in the growth of these developing countries at a lower price than we would be able to directly.”

**– Jenny Witterick, President,
Sky Investment Counsel**

“We expect unemployment to remain stubbornly high throughout the remainder of 2010 and not dip below 9% until late 2011, if then. Defaults will continue in the residential real estate market, preventing any meaningful rebound in real estate values. Charge-offs will continue in the banking sector as commercial real estate loans come due without adequate equity to re-finance. As a result, we remain underweight the financial sector.”

**– Bob McGee, Portfolio Manager,
C.S. McKee L.P.**

“The deficit will crowd out private capital compounding the scarcity of credit for non-gilded borrowers. High-grade bonds will trade on top of or through Treasuries. Regarding Greece, we continue to hold long euro positions.”

**– Samantha Robson, Associate,
JKMilne Asset Management**

ABOUT THE SURVEY

For its survey, NTGA polled a group of respondents, including fixed income and 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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