



INVESTMENT PLANNING

NAVIGATING THE CHANGING INVESTMENT LANDSCAPE

New ways to seek return, manage risk and invest in a tax-smart manner

Rapid growth in global financial markets has produced more investment choices across an expanded set of asset classes and securities markets.

Investing has changed dramatically during the past several years. Global markets are becoming more integrated and accessible, and investment strategies once available only to institutions are now part of the personal investment landscape.

Determining the most appropriate strategy to capitalize on these new investment options can be difficult and time consuming. Fortunately, Northern Trust can help you identify and successfully implement the investment options – new and traditional – best suited to meet your personal financial goals.

CHANGING MARKETS, NEW OPPORTUNITIES

Rapid growth in global financial markets has produced more investment choices across an expanded set of asset classes and markets. For individual investors, these choices offer both the potential for enhanced return opportunities and meaningful diversification benefits. Here is a summary of some of the most prominent new investment capabilities.

Manager-of-Managers Programs

In a manager-of-managers program, a single advisor allocates investment capital among a variety of other asset managers, each characterized by demonstrable skill and experience in a particular asset class or investment strategy. Among its many benefits, a manager-of-managers program offers access to investment firms often not otherwise accessible to

individual investors. A manager-of-managers program can also provide a single, efficient source of diversification across multiple managers, various asset classes and different investment styles.

Northern Trust has been delivering manager-of-managers services to our institutional and qualified personal clients for more than 25 years. In this role, we evaluate a manager's historical performance relative to its peers and corresponding benchmarks. We also assess several key qualitative factors we consider critical determinants of consistent, long-term success, including:

- **Organizational review** – the firm's history, the background of its investment professionals, and the strength of its support staff;
- **Current business profile** – assets under management, product and client mix, and details of the firm's current capital and ownership structure;
- **Investment philosophy and process** – the differentiating features of the firm's investment style and methods, and the potential for its approach to add value under various market scenarios.

Firms selected for our manager-of-managers program are measured and monitored relative to multiple quantitative and qualitative criteria to ensure consistency with the investment mandates for which they were hired.

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Northern Trust's manager-of-managers offerings range from multi-manager mutual funds to external separately managed accounts, and can be used either as a stand-alone investment strategy or as a complement to a broader investment program.

Tax-Managed Equity Strategies

Taxes often represent the single largest investment cost for taxable investors. To minimize the effect taxes have on their investment returns, investors can choose a tax-managed strategy for the equity portion of their portfolios.

Tax-managed strategies are typically designed to match benchmark performance, such as the S&P 500, on a pretax basis, but to outperform the benchmark after taxes. Tax-managed mandates employ trading strategies designed to minimize taxes, such as deliberate "loss harvesting" trades in securities that have declined in value.

Northern Trust's tax-managed capabilities combine benchmark equity returns with a proprietary, active tax-management overlay in a separately managed account. You can use a tax-managed investment solution alone or in combination with other strategies.

Alternative Asset Classes

Today, "alternative" asset classes such as private equity and hedge funds are often an important part of both institutional and personal asset allocation strategies. Recently, alternative asset class investment options have expanded to include real estate and commodities. Used individually or collectively, these investments can fortify portfolio returns and reduce volatility.

Hedge Funds. Hedge funds are specialized investments that employ an array of financial market instruments and strategies, including short selling, leverage (borrowing) and arbitrage (taking advantage of simultaneous price discrepancies). Designed primarily to protect portfolios in down markets, hedge funds pursue positive, absolute returns irrespective of prevailing market conditions.

Northern Trust offers hedge fund investments to qualified clients through a fund-of-hedge-funds program. In this program, you benefit from our expertise in hedge fund strategy selection, program construction and ongoing manager monitoring and evaluation.

Private Equity. Since the mid-1990s, the popularity of private equity investments – taking an ownership stake in

a privately held company – has grown dramatically. Both institutional investors and high net-worth individuals have embraced private equity due to its high return potential, diversification and tax efficiency attributes.

The private equity market – once known for prohibitively high minimum investment requirements – has become accessible to more investors with the advent of fund-of-funds structures. A private equity fund-of-funds invests in several unrelated private equity funds, which in turn invest in shares of multiple private companies. These shares are not listed on public securities exchanges, and therefore are valued largely independent of public market cycles and fluctuations. Similar to our hedge fund-of-funds program, Northern Trust offers a private equity fund-of-funds program for qualified investors.

Real Estate. Real estate investments have several unique attributes. For example, the income from real estate investments is often superior to that of publicly traded equity securities, and the multi-year lease agreements typical with commercial properties generally make real estate less sensitive to short-term economic dynamics. But real estate is also relatively illiquid and requires a large capital commitment to develop a well-diversified property portfolio.

An alternative to direct property ownership is a real estate investment trust (REIT). REITs pool capital from many investors to purchase and manage income-producing properties or mortgage loans. With modest minimum investment requirements, shares of publically-traded REITs also provide a high degree of liquidity.

Although certain residential sectors of the U.S. real estate market are currently showing signs of weakness, global real estate trends remain strong. In addition, foreign governments are increasingly adopting U.S.-style REIT legislation that enables and promotes professional, institutional-quality real estate investment principles. To capitalize on these positive trends, Northern Trust recently introduced its global real estate index strategy, intended to provide investors with a broad, well-diversified global real estate exposure at low capital commitment levels.

STRATEGIC ASSET ALLOCATION STILL KEY

Asset allocation, or how you distribute your investments among various asset classes, remains the primary factor governing the volatility of long-term investment results.

But opportunities for prudent asset allocation today are much better than earlier periods when investors' choices were limited to domestic stocks, bonds and cash.

Today, strategic asset allocation may include alternative investments such as real estate, private equity and hedge funds. The increased accessibility of global financial markets has made foreign securities holdings more important for purposes of both return and risk management. Even within traditional stock and bond allocations, new manager-of-managers programs and tax efficient investment strategies may offer additional improvements to a portfolio's return and diversification profile.

Prudent investors should focus on the long-term rewards of a well-balanced portfolio, while avoiding the unique risks associated with over-allocating investment capital to any single security, asset class or strategy. Whether you own too much of a single stock or have a portfolio weighted too much toward one asset class, one or more of the investment capabilities described above can be used to help moderate portfolio volatility.

The ultimate goal of your asset allocation strategy should be to build an "all weather" portfolio, one that generates the highest possible return within a predetermined level of risk that is consistent with your financial goals, investment time horizon and other personal investment criteria. While there generally are no "one size fits all" solutions,

most investors do benefit from an asset allocation strategy that includes broad diversification among multiple asset classes and investment strategies.

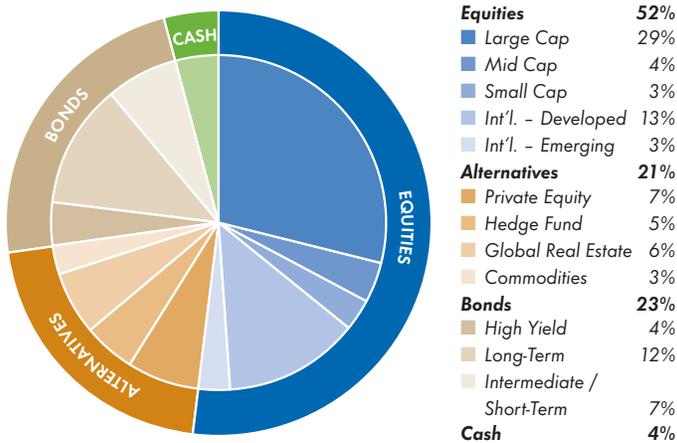
FOLLOWING A DISCIPLINED PROCESS

Northern Trust follows a disciplined, comprehensive investment process that centers on your individual situation. We begin by working with you to determine your specific investment objective, based on your return expectations, risk tolerance and time horizon. Next, we develop and implement an investment program and appropriate asset allocation strategy designed to help you achieve your financial goals.

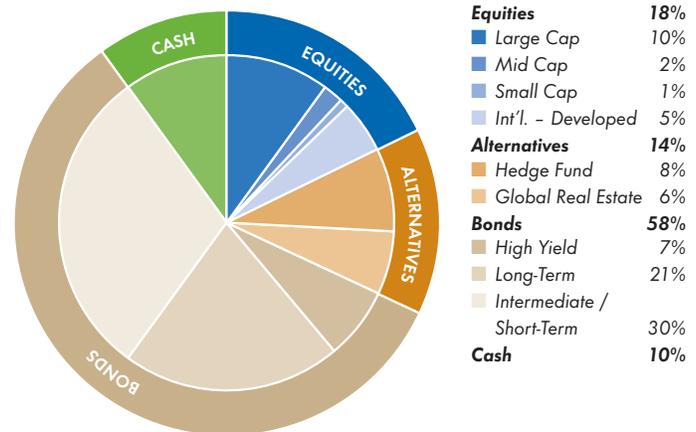
For example, if you qualify as an accredited investor, have a long-term investment horizon, are seeking above-benchmark performance and have a higher risk tolerance, your Portfolio Manager may develop an investment program and asset allocation strategy geared primarily toward long-term capital appreciation. This approach may include a larger proportion of equity and alternative asset class investments than would be suitable for an investor with a shorter timeframe or lower risk tolerance. (See *Strategic Allocation for Growth with Moderate Income* and *Income Investment Objectives*.)

After implementing your investment program, we monitor your portfolio on an ongoing basis, rebalancing

STRATEGIC ALLOCATION FOR GROWTH WITH MODERATE INCOME INVESTMENT OBJECTIVE



STRATEGIC ALLOCATION FOR INCOME INVESTMENT OBJECTIVE



Investments in private equity and hedge funds are available only to qualified investors.

Northern Trust
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asset class exposures when appropriate and replacing securities or managers that fail to meet program objectives. We also regularly evaluate changing market conditions and new investment trends to ensure your portfolio's investment program and asset allocation strategy remain consistent with your financial goals and guidelines.

NEW CAPABILITIES FROM A TRUSTED ADVISOR

At Northern Trust, we understand the peace of mind a trusted advisor can provide, particularly when evaluating the merits and uncertainties of new and emerging investment opportunities. But we also recognize no investment is sound or successful unless it is appropriate for you. That is why we work with you to carefully identify which asset classes and investment strategies – new or traditional – are most suitable for your portfolio. We invite you to call us to learn more about these investment capabilities and how they may complement your portfolio.

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*Strategic allocations represent the strategic asset allocations determined as of the date below by Northern Trust's Investment Policy Committee. Over time, at the discretion of Northern Trust, such percentages may change based on factors deemed relevant by the Committee. A client's actual allocations may vary as Northern Trust may follow client directions that differ from the asset allocation described above. Northern Trust makes no warranty, express or implied, as to the future performance or benefits of a portfolio managed in accordance with the above described investment objective or allocations.

**Access to information about Northern Trust's private equity and hedge fund of funds programs is limited to investors who either qualify as accredited investors within the meaning of the Securities Act of 1933, as amended, or those investors who generally are sophisticated in financial matters, such that they are capable of evaluating the merits and risks of prospective investments.

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