



SUDAN-FREE INVESTING EXEMPLIFIES A BROADER TREND

*Collaborative managers can customize and tailor portfolios
to achieve more than investment goals.*

BY LYLE LOGAN

The world is a dangerous place. Sometimes, in the opinion of legislators, that danger is fueled by the money flowing through a given country from multinational operations and the individuals and institutions that invest in them.

In the United States, recent legislative activity in some states has mandated that their pension funds be divested from Sudan, a country designated by the U.S. Department of State as a sponsor of terror. Not since anti-apartheid laws prohibited investments in companies doing business in South Africa in the 1980s has this scale of financial pressure been brought to bear on a country.

Whether divesting from companies that do business in Sudan or acting on other social concerns, investors face three major considerations when implementing these types of mandates:

- First, there is the cost of divestiture, especially transaction costs.
- Second, investors must deal with the imbalances (tracking error) created in the portfolio as a result of these actions.
- Third, there is the risk of not owning certain large, global stocks.

To implement these mandates successfully, investors need collaborative relationships with investment managers who have strong technical capabilities, a global footprint and the depth and breadth of experience that leads to customized solutions to such modern-day problems.

Northern Trust worked individually with state of Illinois clients to create Sudan-free portfolios in the nine months between passage of the legislation banning Sudan investments for state pension funds and January 2006 when the law became effective in Illinois. We already have moved more than \$7 billion from Illinois funds into Sudan-free index products. In broader socially responsible mandates, clients have moved more than \$16 billion.

The speed and scale of these mandates is not the real story, however, nor is the trend toward terror-free indexes.

Rather, this change underscores the larger trend, which is toward customization of portfolios and the creation of individual solutions designed around the specific needs of investors. In the case of Sudan-free mandates, Northern Trust's capabilities from a quantitative standpoint allowed us to develop investment portfolios based on just about any index. It's only a question of understanding the investor's unique needs, developing thoughtful alternatives and delivering a solution that is economically viable. It follows naturally that the larger the pool of assets, the more viable things become.

Arriving at the appropriate solution is based on a relationship of respect and trust, one that has earned us the right to creatively brainstorm with and for clients. In the Sudan-free mandate, experience with socially responsible investments played a critical role. It is not simply that as the world changes, investors must change as well. It is that investors and their advisors increasingly must work in tandem to find creative solutions to ever-more complex problems. ♦



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