



# AHEAD OF THE CURVE

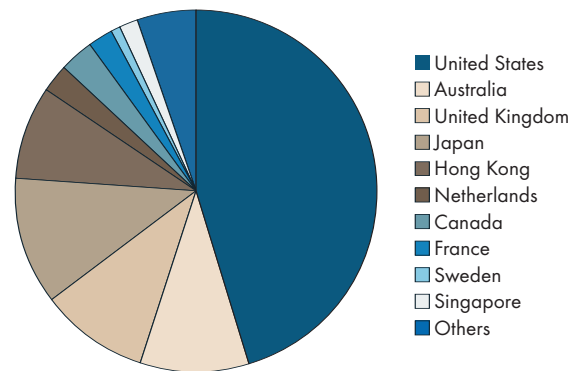
**Ahead of the Curve covers developments** that may impact the behavior and portfolio positioning of institutional investors. Take a closer look at events in the ever-changing regulatory, legislative and investment markets to determine how they may impact you.

## Global Real Estate Indexes

In response to institutional investor demand for real estate exposure, Dow Jones and MSCI indexes recently joined FTSE in offering global indexes. All three indexes provide a more straightforward and transparent way to establish global real estate exposure. But the FTSE maintains some advantages over the newer indexes for investors seeking global exposure. The FTSE has a longer track record and is more inclusive, says Steven Wetter, team leader in the international index division at Northern Trust. With a 35% weighting in real estate management firms, the FTSE index allows exposure to countries that lack real estate investment trusts. In contrast, the two newer indexes are pure REIT indexes.

Real estate investments can be benchmarked to a region or a country or multiple countries, with customized solutions for investors, Wetter says. "These index vehicles allow investors to broaden and deepen their investments into every facet of this global economy in perhaps the most cost-efficient and transparent manner possible."

### FTSE EPRA/NAREIT Global Index Breakdown by Country



Source: FTSE

## Keeping CFOs Worldwide Awake at Night



European workers are aging rapidly, putting pressure on corporate pension liabilities and related costs. Despite that trend, half of European chief financial officers recently surveyed say that influential demographics shift is not a topic of discussion for their company's senior management. Half believe that the

shift won't affect their firms' business prospects in the next decade, according to a recent global CFO survey by Duke University and *CFO Magazine*.

Worldwide, the top concerns for chief financial officers include "rising wages, falling consumer demand and increased fuel costs," the survey found. The threshold for squeezing corporate profits: corporate inflation at 3.5%, the federal funds rate above 5.5%, and oil prices above \$75 per barrel. CFOs expect cash balances to grow another 2.1%.

Responses include roughly 1,000 CFOs in the U.S., Asia and Europe. For more information, go to [cfsurvey.org](http://cfsurvey.org).

## SEC Relief for Smaller Publics

Smaller public companies will likely see some relief from costly compliance requirements of the Sarbanes-Oxley Act of 2002, according to the Securities and Exchange Commission. Section 404 reporting requirements have been known to place additional burdens on foreign private issuers, smaller companies and newly public companies, the SEC notes.

The relief efforts are aimed at enhancing the "attractiveness and cost-effectiveness of participating in our markets," the SEC says. At the same time, the commission assures that changes will not come at the expense of investor protections. The SEC seeks comments on the proposal. For more information, go to [sec.gov](http://sec.gov) and see Release No. 33-8730A and Release No. 33-8731.



## Socially Responsible Investing Grows

In the United States, socially responsible investments (SRI) accounted for \$2.29 trillion in 2005, or roughly a tenth of total U.S. assets under management. That's an increase of more than 3½ times the assets of \$639 billion a decade ago, according to a recent report by the Social Investment Forum. During that time, SRI assets grew at a faster clip than the broader universe of assets under management.

Around the globe, socially responsible investing continues to gain ground, with the largest markets in Canada, Europe, Australia and Japan, as well as in many emerging markets in Latin America, South Africa and the Asia Pacific region. For an in-depth look at the changing tide of socially responsible investing, watch for a feature story in the next issue of *Point of View*. For more information on the report, go to [socialinvest.org](http://socialinvest.org).

## Solving the U.K. Pension Puzzle



A recent Northern Trust white paper, "Attempting to Solve the U.K. Pension Conundrum," explores the issues prompting the U.K. to overhaul its pension system. Once admired and copied, the U.K. pension model has become an example of what to avoid.

The Northern Trust white paper summarizes the proposals outlined in the U.K. government's white paper published in May. There are three major reform components. The government would raise the state pension age to 68 from the current 65 for both men and women by 2044. State pension payments would be linked to average earnings rather than to inflation. And a compulsory system of personal pension savings accounts would require employers and employees to contribute. For more insight into the U.K. pension reform, go to [northerntrust.com/institutional](http://northerntrust.com/institutional) or to [pensionscommission.org.uk](http://pensionscommission.org.uk).

## Efficiency in Emerging Markets

Investing in emerging markets is the subject of a new white paper available in November from Northern Trust's quantitative strategy team. The team asserts that even after a four-year bull run, emerging markets equities offer investors among the best prospects for future returns. The paper outlines why this dynamic asset class should be part of a diversified international portfolio and how indexing provides a low-fee method for gaining broad and efficient exposure to emerging markets.



Supporting the case for emerging markets: With economic growth in these countries forecast at more than double the rate of developed countries, the prospects for company earnings are very positive. Measurable risk and volatility have been declining in emerging markets over the past decade, providing attractive long-term risk/return characteristics. The paper also notes that some of the fastest-growing, industry-leading companies are domiciled in emerging market countries.