



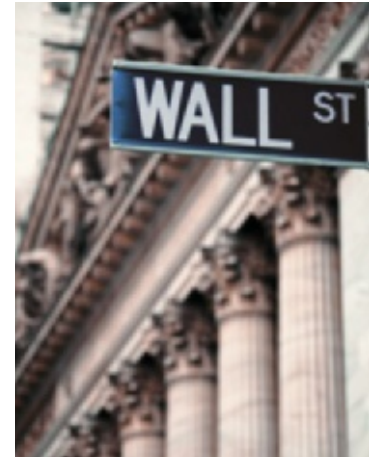
AHEAD OF THE CURVE

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.

Fama and French Update Landmark Equity Study

Two finance professors who authored an immensely influential 1992 study on diversification within market sectors, as well as portfolio size and value factors, are revisiting the topics. Eugene F. Fama of the University of Chicago and Kenneth R. French of Dartmouth University, who wrote “The Cross-Section of Expected Stock Returns,” are drafting a paper that studies how companies’ migrations across size and value portfolios contribute to the size and value premiums in average stock returns.

The working paper proposes that the size premium results from smaller companies’ stocks earning enormous returns and subsequently becoming large-cap stocks. The value premium, on the other hand, can be attributed to three areas: value stocks that migrate upward to neutral or growth portfolios because the company is acquired or because the stocks earn high returns; growth stocks that perform poorly and migrate downward; and value stocks that stay in the same portfolio, compared with growth stocks that do not migrate. Read a working draft of the paper on the Social Science Research Network’s Web site at ssrn.com.



Growing Podcast Library



Northern Trust’s podcast library – online audio and video files – is rapidly expanding. Users can download these files and listen to them on personal media players or through their computers.

The podcasts on Northern Trust’s Web site provide a new way for investors to receive

commentary and analysis on a variety of topics at their convenience. The podcasts supply perspectives that complement print resources. Recent additions to the institutional investor library include:

- “Strategic Update on Liquidity”
- “Target Date Funds”
- “Portable Alpha”
- “The Pension Liability Equation/LDI”
- “Investing in China”

Visitors to the library can subscribe to receive automatic updates whenever new podcasts are posted to the site. To access the current catalog, go to northerntrust.com/podcasts. Investors can also e-mail pointofview@ntrs.com if there are topics they would like to see added to the podcast library.

New Volatility Indices

Volatility indices are based on investors’ general views of expected volatility for the next 30 days in the underlying indices. With these contracts increasingly viewed as a stand-alone asset class, volatility trading opportunities continue to grow.

Investors will soon have additional choices with the planned launch of two new volatility index futures contracts. Offered by the derivatives subsidiary of the Chicago Board Options Exchange — the CBOE Futures Exchange — these contracts will be based on the Nasdaq 100 and the Russell 2000 indices. To learn more, visit the CBOE Futures Exchange at cboe.com/cfe.



Most Boomers Unprepared

Three-fifths of U.S. employers believe the majority of their workers are not financially prepared to leave the workforce, according to Aon Consulting's 2007 Benefits and Talent Survey. This development comes at a time when the 80 million baby boomers in the United States are beginning to reach retirement age.

The survey of more than 2,000 organizations found that 62% of survey respondents expect that less than half their employees will have enough income to retire between the ages of 62 and 65.

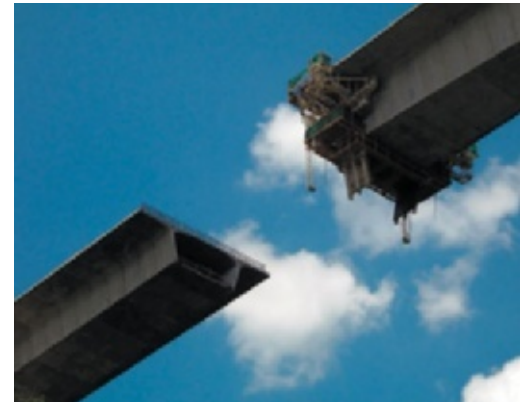
Employees bear more responsibility for retirement savings than ever before, with many employers shifting to defined contribution retirement plans from defined benefit plans. The survey found that roughly 80% of employers offer personalized online retirement planning tools. However, about 80% of employers believe their workers do not completely understand how to invest their DC plan assets. The survey results can be found at aon.com/about/publications.

FTSE 350 Plan Liabilities Grow on Longevity Assumption

Companies in Europe's FTSE 350 Index have increased the value placed on pension plan liabilities by 3% – or £13 billion – to £83 billion as of Dec. 31, 2006. This is due to an increase in longevity assumptions, according to a Mercer Human Resource Consulting survey. The survey was part of a quarterly report released in May detailing pension risk exposure within the FTSE 350 companies.

To put this into perspective, FTSE 350 companies had an estimated aggregate deficit of £70 billion, measured under IAS19, as of Sept. 30, 2006. This total deficit was equivalent to about 4% of a company's market capitalization, on average. Five percent of these companies, however, had deficits of more than 25% of their market capitalization.

In 2006, FTSE 350 companies increased the allowance for the life expectancy of their pension scheme members by an average of an entire year, the survey found. Plan sponsors' contributions to address pension deficits reached a new record of £6 billion in



2006 – up 8% from the prior year. However, these contributions covered less than half of the £13 billion liability increase.

The main question still facing several of the more successful plans is whether to lock in some of the recent equity market gains to reduce investment risk. During the past four years, companies have primarily sought to manage pension risk by reducing future benefit levels – either through cutting existing members' benefits or closing plans to new participants. For additional information, go to mercerhr.com.

Report Calls for Collective Effort

A report by the Financial Stability Forum (FSF) recommends that financial authorities, counterparties, investors and hedge fund managers collectively take action to protect against “potential systemic risks relating to hedge funds and other highly leveraged institutions.” The strength of competition for hedge fund business has generated some signs of “erosion” amid counterparty standards, corresponding with other recent signs of complacency about risk-taking in financial markets, the report says. The FSF seeks to reduce tendencies for financial shocks to spread from country to country. The report is available at fsforum.org/publications.