

AFP[®]
Annual Conference



ORIGINAL
ESSENTIAL
UNBIASED
INFORMATION

— November 7-10, 2010 | San Antonio —



Tax Sensitive Investing

Effectively Managing Operating Funds in a Rising Tax Environment

Christopher Van Alstyne
Senior Vice President
Investment Relationship Manager
Northern Trust Global Investments

AGENDA

November 10, 2010

- **Northern Trust Corporate Overview**
- **The Corporate Tax Burden**
- **Tax Sensitive Investing**
- **Portfolio Construction**
- **Current Market Conditions/Considerations**
- **Tax-Adjusted Yield History - Five Years**
- **Appendix**
 - Economic Research Forecasts
 - Biographies

Northern Trust Corporate Overview



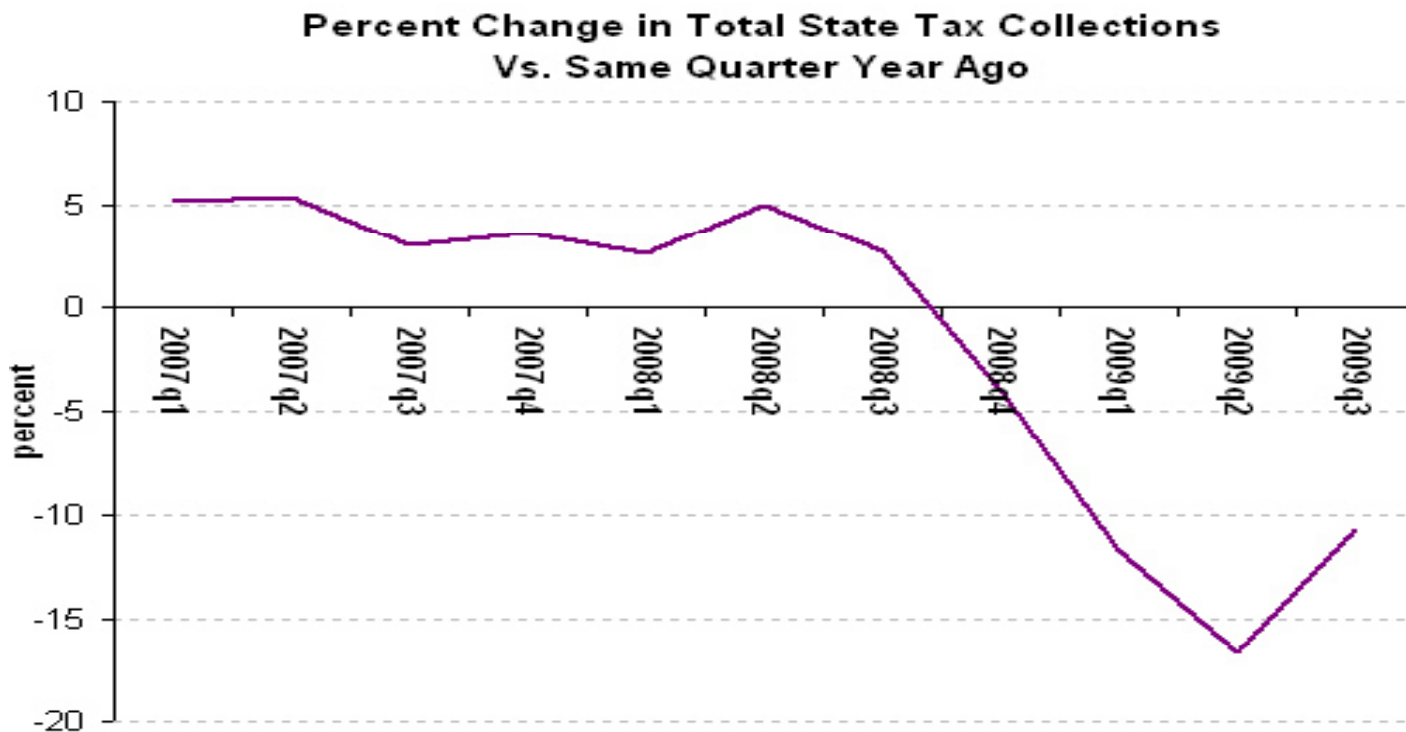
Northern Trust:
A Global Leader in
Investment, Trust and
Wealth Management
Service

For more than a century, Northern Trust has successfully provided people and institutions with financial products and advice through:

- Distinctive solutions
- High touch service
- Industry-leading technology

	As of 6/30/10
Assets Under Management	U.S. \$603.0 Billion
Assets Under Custody	U.S. \$3.6 Trillion
Worldwide Staff	12,940

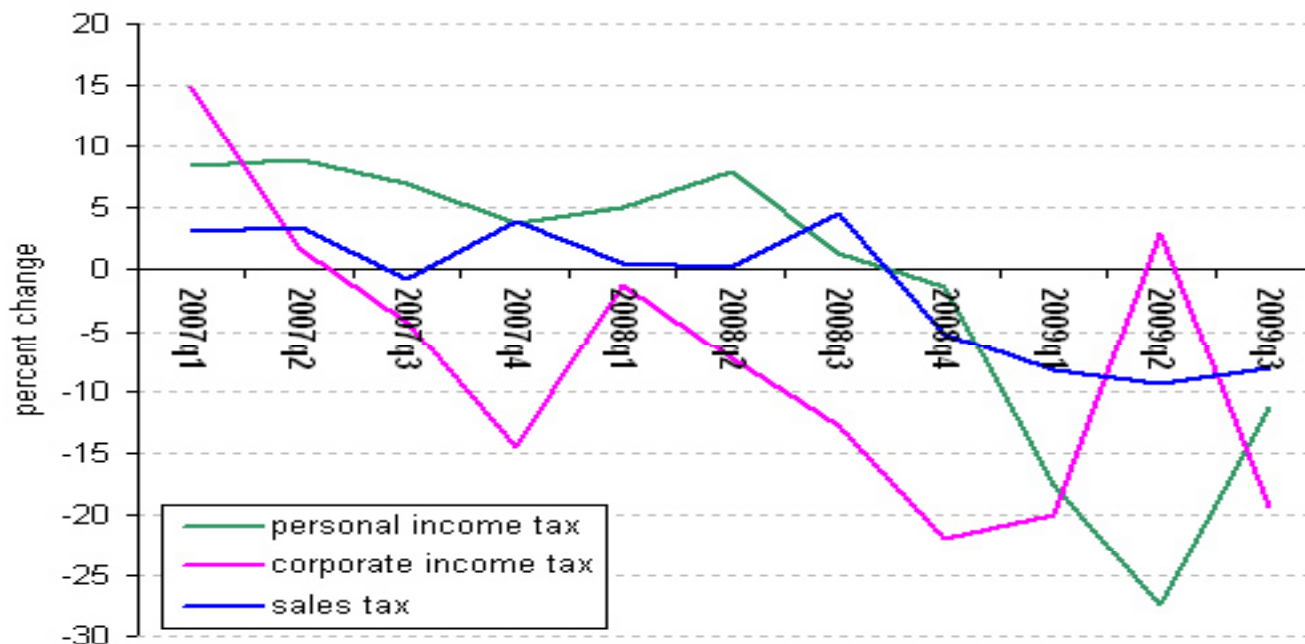
The Corporate Tax Burden



Source: Rockefeller Institute of Government

The Corporate Tax Burden

Percent Change in State Tax Collections
Vs. Same Quarter Year Ago, by Type of Tax



Source: Rockefeller Institute of Government

The Corporate Tax Burden

When compared to other OECD countries:

- 24 U.S. states have a combined corporate tax rate higher than top-ranked Japan.
- 32 states have a combined corporate tax rate higher than third-ranked Germany.
- 46 states have a combined corporate tax rate higher than fourth-ranked Canada.
- All 50 states have a combined corporate tax rate higher than fifth-ranked France.

©2010 Tax Foundation. All Rights Reserved.

The Corporate Tax Burden

Obama's 2011 Budget Tax Hikes Contradict Focus on Job Creation

The president needs to remove economic uncertainty

**Eliminate the corporate income tax,
and nobody gets hurt**

Minneapolis Star Tribune - Todd Rapp - Feb 6, 2010

In anti-tax Oregon, voters consider tapping the rich

Two measures will test how willing residents are to increase taxes on those theoretically best equipped to pay them -- the wealthy and big companies.

January 26, 2010|By Kim Murphy Los Angeles Times

Tax Sensitive Investing

In today's complex financial environment, managing and investing balance sheet cash is a responsibility that requires not only time, but knowledge, expertise, and day-to-day attention. Highly volatile markets make the timing and execution of purchases and sales critical.

Consider tax sensitive investing objectives for balance sheet and operating assets:

- Incorporates the effective Fed corporate tax rate into everyday portfolio management decisions
- Captures value through trading on the dynamic and cyclical relationship of tax exempt muni yields to taxable alternatives
- Easily incorporated into a "second line of liquidity" investment strategy, overnight to 2 or 3 year maturity focus
- Provides advantages in diversification and overall higher quality of municipal market versus corporates credits
- Investing on a best net after tax basis adds value continuously

Portfolio Construction

1. Duration decision
2. Yield curve construction
3. Sector and quality weighting
4. Security selection

Portfolio Construction

	Risk		
	Cash	Enhanced Cash	Short Duration Bond
Description:	\$1 NAV Funds comprised of high quality 2(a)7 securities structured to maximize income while preserving principal and liquidity	Total Return Portfolios invested in high quality short-term instruments with a target WAM of 6-12 months	Total Return Portfolio focusing on sector allocation, security selection and yield curve management across a broad universe of investment grade securities
Weighted Avg. Maturity:	90 day Weighted Average Life Max	6 Months	1.5-2.0 Years
Average Quality:	AA	AA	AA

Portfolio Construction

1. Duration decision

- a) Macro economic analysis
- b) Interest rate strategy forecast - rolling six month view

Portfolio Construction

2. Yield curve construction

- a) Tactical liquidity considerations
- b) Scenario analysis - anticipated curve reshaping
- c) Maturity demand/supply
- d) Relative value decision taxable vs. tax exempt

Portfolio Construction

3. Sector and quality weighting

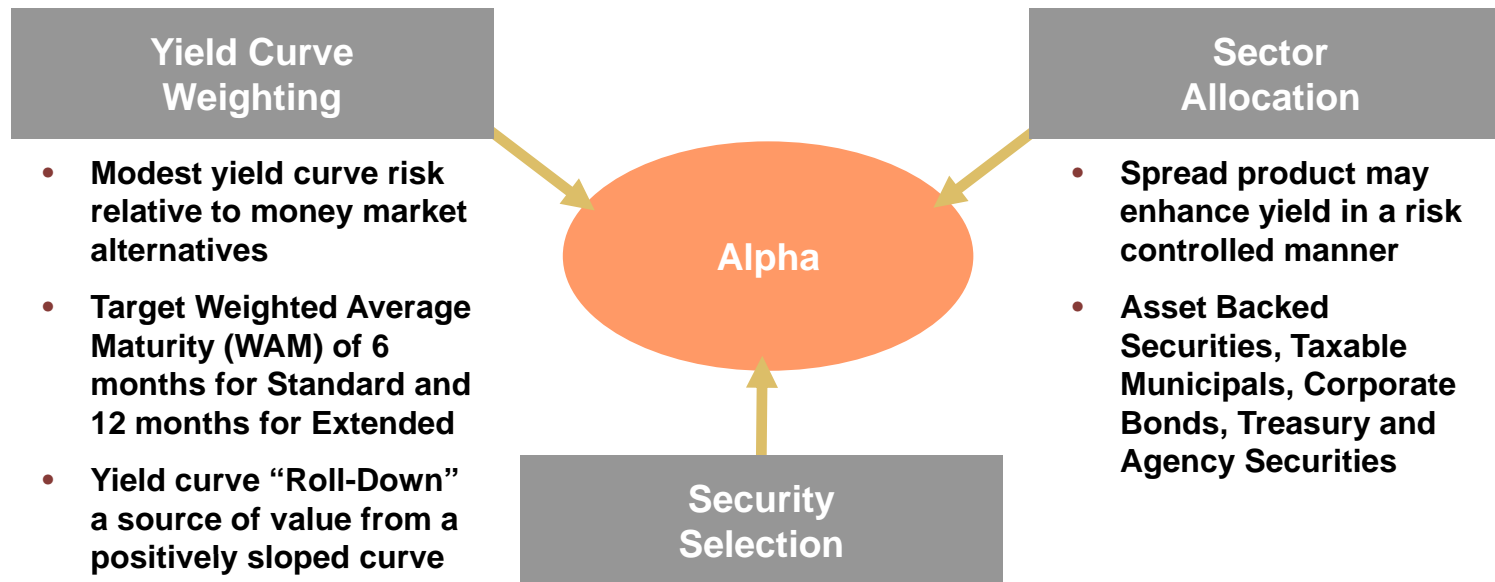
- a) Economic analysis by sector/state/region
- b) Relative value analysis -- credit and quality spreads
- c) Best net after tax screen - snapshot and cyclical factors

Portfolio Construction

4. Security selection

- a) Credit analysis by specialists for taxable and municipal securities
- b) Opportunities in new issue and secondary markets
- c) Dynamic sell/buy discipline actively employed particularly for money market issues

Portfolio Construction



Portfolio Construction

Eligible security universe:

- Treasuries, Agencies (state tax exempt include FHLB, FFCB, TVA), repo
- Bank CDs, commercial paper, corporate bonds, sovereign bonds, supranationals
- Asset backed issues
- Taxable munis
- Tax exempt muni VRDNs (variable rate demand notes with daily and weekly put options)
- Tax exempt Muni commercial paper
- Tax exempt muni notes and bonds: G.O.s, essential service bonds, revenue bonds, tax anticipation notes, AMT issues, put bonds
- Credit parameters: Recommend Tier Two or better short-term, Single A or better long-term
- Maturity parameters: Overnight to two or three years, with weighted average life standard

Current Market Conditions/Considerations

Current Market Yields

Source : Northern Trust

Current Market Conditions/Considerations

Yield ratios : Prime Muni / US Treasury

Source : Northern Trust

Current Market Conditions/Considerations

Indices

Tax-Adjusted Yield History - Five Years

Municipal vs. Corporate and US Treasury

- 2 year maturity
- AAA Tax-Exempt Munis vs. AA Corporate Bonds and US Treasury Notes
- 5 year history at 35% tax rate

Municipals vs. Taxable securities

- 1 week maturity
- Tax-Exempt Muni Variable Rate Demand Notes vs. LIBOR
- 5 year history at 35% tax rate

Tax-Adjusted Yield History - Five Years

2 Year Yields – Muni vs. Corp & Treasury - Tax adjusted @ 35%

Source: Bloomberg

Tax-Adjusted Yield History - Five Years

1 Week Yields - Muni vs. LIBOR - Tax adjusted @ 35%

Source: Bloomberg

Appendix

Economic and Interest Rate Forecast

Table 1 US GDP, Inflation, and Unemployment Rate

	2008		2009				2010				Q4 to Q4 Change			Annual Change		
	08:3a	08:4a	09:1a	09:2a	09:3a	09:4f	10:1f	10:2f	10:3f	10:4f	2008a	2009f	2010f	2008a	2009f	2010f
REAL GROSS DOMESTIC PRODUCT (% change from prior quarter)	-2.7	-5.4	-6.4	-0.7	2.8	3.5	2.4	2.4	2.7	3.2	-1.9	-0.3	2.7	0.4	-2.5	2.5
CONSUMPTION EXPENDITURES	-3.5	-3.1	0.6	-0.9	2.9	1.9	1.7	2.0	2.0	2.3	-1.8	1.1	2.0	-0.2	-0.6	1.9
BUSINESS INVESTMENT	-6.1	-19.5	-39.2	-9.6	-4.1	-6.9	-0.7	0.3	1.0	2.9	-6.0	-16.3	0.9	1.6	-18.2	-2.3
RESIDENTIAL INVESTMENT	-15.9	-23.2	-38.2	-23.3	19.5	12.0	2.5	2.5	4.0	5.0	-21.0	-10.7	3.5	-22.9*	-20.0	4.6
CHANGE IN INVENTORIES ('00 dlrs, bill)	-29.7	-37.4	-113.9	-160.2	-133.4	-88.8	-68.8	-58.8	-48.8	-33.8				-25.9*	-124.1*	-52.6*
GOVERNMENT	4.8	1.2	-2.6	6.7	3.1	1.6	1.9	1.3	2.1	1.8	3.1	2.2	1.8	3.1	2.1	2.2
NET EXPORTS ('00 dlrs, bill.)	-479.2	-470.9	-386.5	-330.4	-358.0	-346.1	-337.4	-324.8	-312.7	-299.7				-494.3*	-355.2*	-318.7*
FINAL SALES	-2.9	-4.7	-4.1	0.2	1.9	1.6	1.8	2.1	2.3	2.7	-1.4	0.0	2.2	0.8	-1.7	1.9
NOMINAL GROSS DOMESTIC PRODUCT	1.4	-5.4	-4.6	-0.8	3.3	7.0	4.8	4.8	4.7	5.0	0.1	1.1	5.2	2.6	-1.1	4.8
GDP DEFLATOR - IMPLICIT (% change)	4.1	0.0	1.9	1.1	3.4	3.4	2.3	2.3	2.3	2.9	2.0	1.4	2.4	2.1	1.4	2.2
CPI (% Change, 1982-84 = 100)	6.2	-8.3	-2.4	1.3	3.6	3.6	2.5	2.5	2.5	3.1	1.5	1.5	2.6	3.8	-0.3	2.8
CIVILIAN UNEMPLOYMENT RATE (avg.)	6.1	6.9	8.1	9.3	9.6	10.1	10.2	10.5	10.4	10.1				5.8*	9.3*	10.3*

a=actual
f=forecast
*=annual average

Table 2 Outlook for Interest Rates

SPECIFIC INTEREST RATES	Quarterly Average										Annual Average		
	08:3a	08:4a	09:1a	09:2a	09:3a	09:4f	10:1f	10:2f	10:3f	10:4f	2008a	2009f	2010f
Federal Funds	1.94	0.51	0.18	0.18	0.16	0.13	0.15	0.15	0.40	0.95	1.93	0.16	0.41
2-yr. Treasury Note	2.36	1.21	0.91	1.01	1.03	0.85	0.75	0.85	1.15	1.70	2.00	0.95	1.11
10-yr. Treasury Note	3.86	3.25	2.74	3.31	3.52	3.40	3.40	3.45	3.70	4.00	3.67	3.24	3.64

a = actual
f = forecast

Source : Northern Trust

Contact Information

Christopher Van Alstyne
Senior Vice President
Investment Relationship Manager
Northern Trust Global Investments
312.9277.5311
cva1@ntrs.com

Important Information

This material is directed to eligible counterparties and professional clients only and should not be relied upon by retail investors. The information in this report has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Opinions expressed are current as of the date appearing in this material only and are subject to change without notice. This report is provided for informational purposes only and does not constitute investment advice or a recommendation of any security or product described herein.