

INDEX BULLETIN

MSCI UPDATE -DEVELOPED MARKETS

ANALYSIS - PHASE II & SEMI-ANNUAL REVIEW

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On May 7th MSCI announced the results of its Semi-Annual Index Review for the changes effective after the close of May 30th. This review marks the end of the two-step transition from the old MSCI index methodology to the new Global Investable Market Indexes (GIMI) – **the most notable improvements being implemented are the clearly segmented Large, Mid, and Small Cap Indexes and the Emerging Markets Small Cap index series.**

MSCI Transition – Phase II



In this last transition step, the final 50% of the free float market cap will be deleted from or added to the Global Standard Indexes. Phase I additions and deletions were implemented in the November 2007 Semi-Annual Review.

The expected one-way turnover including the transition for the MSCI World Standard Index is 2.9% and 21.2% for the MSCI World Small Cap Index.

Semi-Annual Review - MSCI World Index

MSCI also announced non-transition related changes to the Indexes including additions, deletions, investability factor (FIF) changes, and share changes. There will be 49 securities added and 56 deleted from the World Index resulting in a 1.4% turnover (not including transition assets). The largest addition by free float-adjusted market cap is Berkshire Hathaway B shares which are newly eligible for index inclusion as a result of an increase in the liquidity rule. Nine of the additions to the World ex US index are migrations from the Small Cap index. Of the 56 assets being deleted, six are Hong Kong assets which are

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being reclassified as P-shares and are therefore being moved to the China (Emerging Market) index, two are large European assets which fail to meet investability requirements, and a number of others will migrate to the Small Cap Index.

Semi-Annual Review - MSCI World Small Cap Index

The MSCI World Small Cap Index will see 362 additions and 170 deletions, resulting in a 1% increase in the market cap of the index (despite poor performance in the previous six months), although the US market cap declined by .10%.

While there is large one-way turnover for the Provisional World Small Cap (7.2%), the turnover for the broader index, the Provisional World IMI (incl. Large, Mid, and Small) is only 1.4%. This is comparable to the Provisional World Standard turnover. The following tables break down the changes by region and size segment. Exhibit 1 shows the Semi-Annual Review changes to the Provisional Indexes (i.e. not including the transition). Exhibit 2 shows the pro forma changes to the Global Standard and Small Cap Indexes including both the second step of the transition and the non-transition review changes.

The Semi-Annual Index Review also reflects changes to the Global Minimum Size References and the Market Size-Segment Cutoffs, which impacts the cutoffs for the Large, Mid, and Small segments and the number of companies in each segment. Prior to this methodology change the Developed Markets World Index did not have a Large/Mid breakdown. The index contained a number of overlapping securities with the World Small Cap Index. The new methodology alleviates this overlap and allows investors to combine their Large + Mid Cap investments (e.g. World Index) and their Small Cap investment into a single comprehensive "All Cap" fund (e.g. World Investable Market Index (IMI)).

The Global Minimum Size Reference (GMSR) fell significantly for all three segments as a result of poor performance since the last Semi-Annual rebalance in November 2007. Provisional World Small Cap fell 14.2% between October 11, 2007, and April 10, 2008, resulting in a 22.7% decline in the GMSR for Small Cap to USD 293M. The Large Cap and Mid Cap segments declined 12% and 12.8%, respectively, and the size references similarly declined 10% and 16.8%, respectively. The number of constituents in the MSCI World IMI index increased by 185 names to 6,257 companies and has a projected market capitalization of 30.5 trillion USD.

Exhibit 1: Pro forma changes to the MSCI Global Investable Market Indices

	Pro forma Prov Std Index					Pro forma Prov Small Cap Index					Pro forma Investable Market Index				
	Index Market Cap	# Sec	# Add	# Del	One-way Index Turnover	Index Market Cap	# Sec	# Add	# Del	One-way Index Turnover	Index Market Cap	# Sec	# Add	# Del	One-way Index Turnover
ACWI	30,463,231	2,545	88	82	1.6%	4,082,794	8,165	681	226	8.3%	34,536,025	8,710	681	202	1.8%
World	26,901,707	1,756	49	56	1.4%	3,806,633	4,601	362	170	7.2%	30,508,340	6,257	327	142	1.4%
EAFE	13,039,191	1,032	27	37	1.5%	1,552,825	2,390	193	106	8.3%	14,592,016	3,422	173	96	1.6%
North America	13,862,516	724	22	19	1.3%	2,053,807	2,111	169	64	6.3%	15,916,323	2,835	154	46	1.1%
USA	12,674,443	628	21	18	1.3%	1,877,153	1,897	134	61	5.9%	14,551,596	2,523	120	44	1.1%
Europe	9,138,310	520	14	16	1.3%	971,580	1,184	82	50	7.9%	10,109,870	1,704	75	45	1.4%
United Kingdom	2,830,494	125	1	7	0.9%	314,879	317	23	15	8.8%	3,145,373	442	16	14	0.7%
Europe ex Uk	6,307,816	395	13	9	1.6%	656,681	867	59	35	7.8%	6,964,496	1,262	59	31	1.8%
Japan	2,612,656	351	9	10	2.1%	362,216	827	55	24	7.6%	2,994,871	1,178	45	15	1.9%
Pacific ex Japan	1,288,225	161	4	11	2.1%	199,050	379	56	32	11.8%	1,487,275	540	53	36	2.9%
EM	3,551,524	789	37	26	3.4%	476,161	1,864	319	56	17.2%	4,027,685	2,453	334	60	4.6%
EM Asia	1,869,089	484	23	18	4.2%	325,371	1,212	229	28	16.8%	2,194,457	1,698	237	31	5.5%
EM EMEA	873,165	175	13	7	3.6%	91,520	301	50	20	17.9%	964,666	476	56	20	4.2%
EM Latin America	809,273	130	1	1	1.2%	59,270	151	40	8	18.4%	868,543	281	41	9	2.5%
FM	193,986	166	13	10	6.1%	-	-	-	-	-	-	-	-	-	-
FM ex GCC	63,964	85	6	10	6.2%	-	-	-	-	-	-	-	-	-	-
GCC ex SA	130,021	81	7	0	6.0%	27,033	119	18	7	11.6%	157,054	200	22	4	5.8%

All market caps are in USD millions. Data as of April 10, 2008.

Exhibit 2: Pro forma changes to the MSCI Global Standard and Global Small Cap Indices

	Pro forma Standard Index						Pro forma Small Cap Index					
	Index Market Cap	# Full Add	# Full Del	# 1/2 Add	# 1/2 Del	One-way Index Turnover	Index Market Cap	# Full Add	# Full Del	# 1/2 Add	# 1/2 Del	One-way Index Turnover
ACWI	30,453,231	83	82	139	334	3.1%	-	-	-	-	-	-
World	26,901,707	49	56	98	178	2.9%	3,606,633	349	170	2,280	186	21.2%
EAFE	13,039,191	27	37	66	157	3.0%	1,552,825	184	106	1,041	128	21.9%
North America	13,862,516	22	19	32	21	2.8%	2,053,807	165	64	1,219	58	19.9%
USA	12,674,443	21	18	27	14	2.8%	1,877,153	131	61	1,133	50	19.3%
Europe	9,138,310	14	16	42	94	2.9%	971,560	79	50	537	22	21.3%
United Kingdom	2,830,494	1	7	9	24	2.3%	314,879	23	15	165	4	21.2%
Europe ex Uk	6,307,816	13	9	33	70	3.1%	656,681	56	35	372	18	21.7%
Japan	2,612,656	9	10	17	43	3.2%	382,216	52	24	399	93	21.7%
Pacific ex Japan	1,288,225	1	2	1	0	3.1%	199,050	53	32	105	13	22.5%
EM	3,551,524	34	26	41	156	5.2%	-	-	-	-	-	-
EM Asia	1,869,086	22	18	21	81	5.9%	-	-	-	-	-	-
EM EMEA	873,165	11	7	13	53	5.5%	-	-	-	-	-	-
EM Latin America	809,273	1	1	7	22	3.3%	-	-	-	-	-	-

All market caps are in USD millions. Data as of April 10, 2008.

All of us at Northern Trust Global Investments look forward to working with you to effectively manage the MSCI index evolution. We also welcome discussions on general international equity benchmark issues. If you have any questions about the MSCI methodology or transition or are interested in discussing related index trading strategies, please contact your Investment Relationship Manager.

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