



Overview & Investment Thesis:

- Northern Trust is a bank holding company with a 120 year-old franchise; it is a premier asset servicing organization in the U.S. focusing its franchise exclusively on wealthy, private banking clients and on the increasingly sophisticated world of global institutional money management. It is the world's 3rd largest index manager and 10th largest asset manager worldwide. As at June 30, 2011, personal and corporate trust assets under custody totalled US\$4.4 trillion and assets under management were US\$684 billion creating an attractive fee-earning business. Its earning assets averaged US\$83 billion in 2Q 2011.

- Northern Trust has over 13,500 staff members and is best known for its meticulous attention to client details and delivery of the highest quality service through very distinctive and elegantly appointed branches located in wealthy enclaves across the U. S. Headquartered in Chicago, Northern Trust currently has 78 offices in 18 U.S. states, located within 45 minutes driving radius of about half of America's millionaires; and is working towards expanding this 'high-touch' policy and network. It also has international offices in 16 locations in North America, Europe, the Middle East and the Asia-Pacific region.

The Group generates the majority of its revenues from its two primary business units:

- Personal Financial Services (PFS)** that provides personal trust, banking (including private banking and residential real estate mortgage lending), custody and investment management services; individual retirement accounts; guardianship and estate administration services. PFS is **the largest** manager of personal trust assets in the U.S., as measured by trust assets, with US\$388 billion in assets under custody and US\$172 billion in assets under management.

- PFS focuses on 3 categories of investible assets: >US\$1m - Private Banking & Personal Trust; US\$25m-75m - Wealth Advisory Services and >US\$75m - Wealth Management Group, one of the fastest growing segments.

- Corporate & Institutional Services (C&I)** is a leading worldwide provider of asset management, administration and related services, serving clients in more than 40 countries and supporting their investment needs in more than 90 markets worldwide. It incorporates state-of-the-art capabilities including: worldwide master trust, global custody, settlement and reporting, investment risk and performance analysis and credit and treasury cash management services. C&I has total assets under custody of US\$4.0 trillion (including US\$2.5 trillion of global custody assets) and US\$512 billion in assets under management.

- Majority of growth has been organic with occasional opportunistic acquisitions. Northern Trust paid US\$155m in early 2003 to acquire Deutsche Bank's US\$73bn passively managed assets business, propelling it to be the world's 3rd largest institutional index manager (behind State Street and Blackrock). Thereafter it paid US\$11.5m to acquire the US\$300m asset management firm, Legacy South, so entering the attractive Atlanta, Georgia wealth market and in March 2005, approximately £260m to acquire ING, Baring Asset Management's Financial Services Group with approximately US\$63bn in funds under administration, US\$28bn in custody and US\$32bn in trust assets, complementing the firm's capabilities in London, Dublin and Luxembourg and its growing back and middle office outsourcing activities for fund managers. In 2008, it acquired Lakepoint Investment Partners of Cleveland, Ohio - a highly regarded investment management firm with expertise in creating quality tax efficient portfolios. In 2010, it acquired Los Angeles based Waterline Partners LLC a highly regarded investment advisory firm serving affluent individuals and their families. In 2011, it completed the acquisition of the fund administration business of Bank of Ireland and announced an agreement to acquire Omnium LLC a leading hedge fund administrator.

Business Description:

Northern Trust Corporation is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families and affluent individuals worldwide. The Group's principal activities are the provision of trust, commercial banking and investment management services to domestic and international institutional clients. Northern Trust provides services through two units namely Corporate and Institutional Services unit and Personal Financial Services unit.

Industry Growth Drivers/Trends:

- Northern Trust should continue to grow its core private banking and custody businesses better than peers as it takes market share amidst the market dislocation.
- In our view, Northern Trust has opportunistically positioned offices to capture assets from disaffected clients of merged banks. With ongoing bank mergers enforced by the financial crisis - Northern Trust's potential for growth remains strong with ever increasing demand for estate planning, asset management and advisory services, reinforcing this firms growth strategy.
- Northern Trust is also well positioned to benefit from global trends that may increase the demand for its scaleable C&I services, such as passive equity and cash management. These trends include growth in the size of financial markets, aging populations and their need to save for retirement, outsourcing of pension assets, underfunded government pension plans and increased cross-border investing.
- Asset managers facing ongoing margin pressure, regulatory change and demand for increasingly complex products. The trend for large financial service companies and asset managers to outsource non-core functions/services, which mostly involve the scaleable parts of the investment process, such as custody, portfolio accounting, fund administration, securities lending, foreign exchange and risk analysis. This firm is one of only a handful of processor/trust banks continuously attracting this new business; thus building scale and differentiated expertise, which further sharpens its competitive edge versus other companies' internalized functions. In 2010, it expanded its Investment Operations Outsourcing (IOO) capability, a service in which the firm handles middle-office and post-trade functions, along with custody and other back-office work. By year-end 2010, its 100 client base doubled across North America, Europe and Asia Pacific regions.
- The persistent low interest rate environment has suppressed earnings and when rates do rise, the firms asset sensitive franchise will strongly accrete to its return on equity.

Competitive Advantages:

- Very strong brand name, supported by strong capital base.
- Diversified product and service offering.
- Relationship approach - 85% of new business comes from existing clients.
- Experienced management team.
- Technological expertise.

Competitors:

- Trust banks: Bank of New York Mellon and State Street.
- Full-service brokerage firms: Bank of America Merrill Lynch and Morgan Stanley Smith Barney.
- Asset management firms: Fidelity, Alliance Capital and Capital Group.
- Onshore private bank divisions of U.S. commercial banks: notably JPMorgan Chase and Wells Fargo.
- Offshore private banks: UBS and Credit Suisse.
- Mass affluent self-service brokerages: Charles Schwab.

Barriers to Entry:

- Technology, size and scale - particularly in the global custody business.
- Established client relationships.

Customers:

- Diversified customer base.
- No single customer contributes a significant amount to total revenue.



Officers and Directors:

Leadership team: Chairman & CEO, Frederick Waddell; President Personal Financial Services, Sherry Barrat; CFO, William Morrison; Head of Human Resources & Administration, Timothy Moen; President Northern Trust Global Investments, Stephen Potter and President Corporate & Institutional Services, Steven Fradkin. Very experienced, conservative and client-service focused team. Northern Trust enjoys a strong one-firm culture that encourages cross selling across businesses.

Board of Directors:

- **13 member board** - of which 12 are non-executive and independent. 3 directors have been on the board for >10 years.
- Directors are from a diverse range of backgrounds including academia, electronics, heavy equipment, manufacturing, energy, defense, financial services, water and waste.
- Frederick Waddell, Chairman & CEO does not sit on the Audit, Remuneration or Governance committees - which are respectively chaired by Edward Mooney (Retired Chairman & CEO Nalco Chemical Company) and John Rowe (Chairman and CEO Exelon Corporation since 2002.)

Ownership:

Northern Trust 6.0%, State Street 4.3%, T Rowe Price Associates 4.2%, Goldman Sachs 4.0%, Vanguard 3.6%, Capital World 2.7%, Fidelity 2.7%, American Century 2.6%, Blackrock 2.4%, 2.4%, State Farm Mutual 2.4%.

Capital Allocation/Uses:

Majority of growth has been organic with occasional opportunistic (and 'bolt-on' rather than transforming) acquisitions. Northern Trust maintains a progressive dividend policy and payout ratio and a regular share repurchase program. In 2009, its priority was to repay in full the US\$1.576bn preferred share investment made by the U.S. Department of Treasury under the TARP (troubled asset relief program) funding and it was one of two major US banks, not to cut its dividend during the financial crisis, maintaining its dividend to shareholders for the 114th consecutive year.

Key Products:

- **Personal Financial Services** - with an emphasis on relationship banking. In 2011 the firm was stated by the *Financial Times* to be the "Best Private Bank in North America" and by *Euromoney* as "Best Global Investor Services House".
- **'Northern Trust Private Passport'**, a robust, personalized, online information platform, for Wealth Management Group clients who customize their home page and the information they obtain in order to manage their assets 24 hours a day, 7 days a week, worldwide via the Internet.
- **Corporate & Institutional Services** - named:
 - "Best Global Custodian" by *Asian Investor*.
 - Provides service to 27% of the world's top 200 asset managers.
 - Serves 40% of the largest pension funds in the U.S., 29% of the top 200 pension plans in the U.K. and 30% of the top 50 not-for-profit U.S. foundations.

Portfolio Composition:

Business Mix	2008	2009	2010
Corporate & Institutional Services	61%	74%	65%
Personal Financial Services	32%	21%	33%
Treasury & Other Operations	7%	5%	2%

Trust Assets (US\$ billions):

Assets Under Custody	2008	2009	2010
Corporate & Institutional	2,719	3,326	3,711
Personal Financial Services	288	331	370
Total	3,007	3,657	4,081

Assets Under Management	2008	2009	2010
Corporate & Institutional	426	482	489
Personal Financial Services	132	145	155
Total	558	627	644

Customer Loan Portfolio	2008	2009	2010
Residential Real Estate	34%	39%	39%
Commercial	27%	23%	21%
Commercial Real Estate	10%	11%	11%
Personal	16%	18%	19%
Other	4%	3%	2%
Lease Financing	3%	3%	4%
Total USA	94%	97%	96%
Non-USA	6%	3%	4%
Total	100%	100%	100%

Interest Earnings Assets	2008	2009	2010
Treasury	16%	23%	18%
Loans to Banks	22%	17%	19%
Loans to Customers	41%	36%	36%
Trading Assets	21%	24%	27%
Customer Loan/Deposits	49%	48%	44%

Financial Statement Summary: (\$MM, years ended December 31)

Income Statement	2008	2009	2010
Net Interest Income	1,079	1,000	919
Other Income	3,199	2,787	2,729
Provisions for Credit Losses	(115)	(215)	(160)
Non-Interest Expenses	(2,888)	(2,318)	(2,498)
Taxes	(481)	(391)	(320)
Net Income	783	753	669
Earnings per Share	3.53	3.18	2.74
Diluted EPS	3.47	3.16	2.74
Dividend per Share	1.12	1.12	1.12

Balance Sheet	2008	2009	2010
Common Equity	4,888	6,312	6,830
Book Value per Share	21.89	26.12	28.19

Key Profitability Ratios and Figures:

Y/E December 31	2008	2009	2010
Tier 1 Common Equity Ratio	-	12.8%	13.0%
Tier 1 Capital Ratio	13.1%	13.4%	13.6%
Total Capital Ratio	15.4%	15.8%	15.6%
Efficiency Ratio (Costs/Income)	68.0%	61.0%	69.0%
Net Interest Margin	1.60%	1.33%	1.20%
Assets Under Custody (US\$bn)	3,007	3,657	4,081
Assets Under Mgmt. (US\$bn)	559.0	627.0	644.0
PCLs % of Loans	0.37%	0.77%	0.57%
Loan Loss Reserve of Loans	0.82%	1.23%	1.27%
Loan Loss Reserve of Impaired Assets	251%	111%	94%
Return on Average Equity	16.0%	12.7%	10.1%
S&P Senior Rating of Debt	AA-	AA-	AA-

Sourced from 2010 Annual Report

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