

**PREPARED TESTIMONY
OF
NORTHERN TRUST**

**SUBMITTED TO THE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE
AND THE DISTRICT OF COLUMBIA**

**“INVESTING IN THE FUTURE: MINORITY OPPORTUNITIES
AND THE THRIFT SAVINGS PLAN”**

JULY 10, 2008

We would like to thank Chairman Danny Davis, Ranking Member Kenny Marchant and members of the Subcommittee for the opportunity to submit this prepared statement.

Northern Trust is a leading provider of investment management, asset and fund administration, fiduciary and banking solutions for corporations, institutions and affluent individuals worldwide. Northern Trust, a multibank holding company based in Chicago, has a growing network of 85 offices in 18 U.S. states and has international offices in 15 locations in North America, Europe, the Middle East and the Asia-Pacific region. As of March 31, 2008, Northern Trust had assets under custody of US\$4.0 trillion, and assets under investment management of US\$778.6 billion. Northern Trust, founded in 1889, has earned distinction as an industry leader in combining exceptional services and expertise with innovative products and technology.

We commend the Subcommittee on conducting hearings to explore the opportunities for minorities in the management of the Federal Thrift Savings Plan. Northern Trust has long recognized the importance of diversity within all facets of the securities industry and the U.S. capital markets.

Increasingly, regulatory and legislative mandates require U.S. public entities to source a portion of their activities to minority- and women-owned firms. As a custodian, Northern Trust provides innovative tools to assist our U.S. public pension fund and other institutional clients in meeting the growing number of complex regulatory and compliance requirements. Northern has demonstrated its commitment to expanding the opportunities for minority – and women – owned firms not only to satisfy the needs of our clients but also as a way to embrace the inclusion of diverse businesses in an increasingly diverse marketplace. Northern Trust has built strategic partnerships with emerging and minority broker-dealers and asset managers with a focus on best execution in markets where each firm has demonstrated strength and expertise.

Northern Trust Global Investments (NTGI), the asset management arm of Northern Trust, has significantly expanded its emerging broker program in recent years. The number of fixed income trading partners has grown because of the over-the-counter nature of fixed income trading that requires a larger universe of trading partners to achieve liquidity and best pricing. Last year, NTGI added seven emerging and minority/women-owned broker-dealers to its list of preferred equity trading partners. The firms approved specifically for equity trading met requirements for execution capabilities, technology platforms, capital commitment and performance. Increasing the volume of securities traded with them will generate higher brokerage revenues for these organizations. In 2006, Northern Trust traded \$36 billion worth of equity and fixed-income securities with broker-dealers in the program, up from \$16.5 billion in 2004 and \$2.5 billion in 2003.

Northern Trust's diversity commitment also includes its Emerging/Minority Managers Practice, which invests nearly \$6 billion with emerging and minority-owned investment management firms through manager-of-manager programs. Northern Trust helps emerging managers build up the assets, compliance procedures and performance track records that are required for direct investment by large institutions. Consequently, many of the women-and minority-owned managers in the Northern Trust program have developed to the point where they have been able to win direct investment mandates, outside of a multi-manager lineup. The success of the emerging managers that graduate from the program is a reflection of their effort and talent, as well as Northern Trust's dedication to the development of minority-owned firms.

One of the main obstacles to the creation of diversified investment programs is that most clients' fiduciary guidelines preclude smaller or newer managers from bidding directly on management contracts. Emerging and minority managers may lack the 3-to-5 year performance record that public funds, other institutional investors and their investment consultants typically set as a prerequisite to direct investment with an individual manager. Northern Trust's Emerging Manager program can easily meet those standards and diversify the risk to the client, without requiring the client to add staff or allocate additional resources to handle the larger number of contractors. Thus, Northern Trust's Emerging Manager program helps public and corporate clients meet goals to include emerging and minority managers while also fulfilling all fiduciary obligations.

As part of our prepared statement, we are submitting a white paper entitled: "Can Elephants Dance?" that discusses the potential benefits of investing with emerging managers. It also explains why Northern Trust created a multi-manager investment program focused specifically on emerging firms that mitigates the incremental business risks, costs and capacity constraints of working with smaller managers within a style-diversified and risk controlled investment vehicle.

We appreciate the opportunity to join in the discussion of improving diversity in the management of the Federal Thrift Savings Plan. We believe that significant progress can be made on this issue as is demonstrated in the clearly defined solutions that we provide to U.S. public pension funds and other institutional clients. The inclusion of emerging

and minority owned firms should be part of the “best practices” executed on a federal level. Because of past and present institutional bias and practice, it is incumbent upon this Subcommittee to act to ensure that the country’s largest pension plan executes the best practice of inclusion.

Respectfully submitted,

Northern Trust