

STATE STREET

**INVESTOR
CONFIDENCE
INDEX[®]
SUMMARY**

MEASURING INVESTOR CONFIDENCE ON A QUANTITATIVE BASIS

The State Street Investor Confidence Index® (the index) provides an objective, quantitative measure of global risk tolerance of the world's sophisticated investors. Regional components measure separately the risk appetites of institutional investors in North America, Europe and The Asia-Pacific region.

The index is published at 10:00 local time in Boston, USA on the second to last Tuesday of each month.

THE PREMISE

Confidence in the economy and the capital markets is a critical driver of economic and financial fluctuations and of the business cycle. When confidence increases, consumers and investors want to buy consumer goods, durables and invest at prevailing prices. When confidence decreases, spending and risk-taking tend to fall.

Investors are said to be confident when the news about the future is good and stock prices are rising. However, rising prices are related both to good fundamentals, such as growth in industrial production and productivity, as well as to the underlying sentiment or mood of investors. A good confidence measure should indicate whether, for a given set of fundamentals, investors have an increased or decreased appetite for risk.

Quantitatively measuring shifts in investor sentiment presents a unique set of problems to researchers. Investor surveys are often outdated by the time they are released. On the institutional side, accuracy can be compromised as decision makers are often too busy to fill out surveys. In all cases, survey responses, like prices, tend to obscure the effects of fundamentals and investor sentiment.

THE APPROACH

State Street's approach measures confidence directly and quantitatively by assessing the changes in investor holdings of risky assets, implementing a research model developed by Harvard Professor Ken Froot and Managing Director Paul O'Connell of State Street Global Markets' research partnership – State Street Associates.

The idea is simple: the more of their portfolios that sophisticated investors are willing to devote to riskier as opposed to safer investments, the greater their risk appetite or confidence. When risk appetite increases, investors move to increase, in the same proportion, their holdings of each risky investment. This process may occur when there is good news and prices are up, but could also happen over a period of bad news and falling prices. As a result, the risk appetite of institutional investors is a separate and distinct measure from the behavior of prices. Actual investor holdings and recent purchases provide a solid foundation on which to base a measure of investor confidence.

INFORMATION BASE

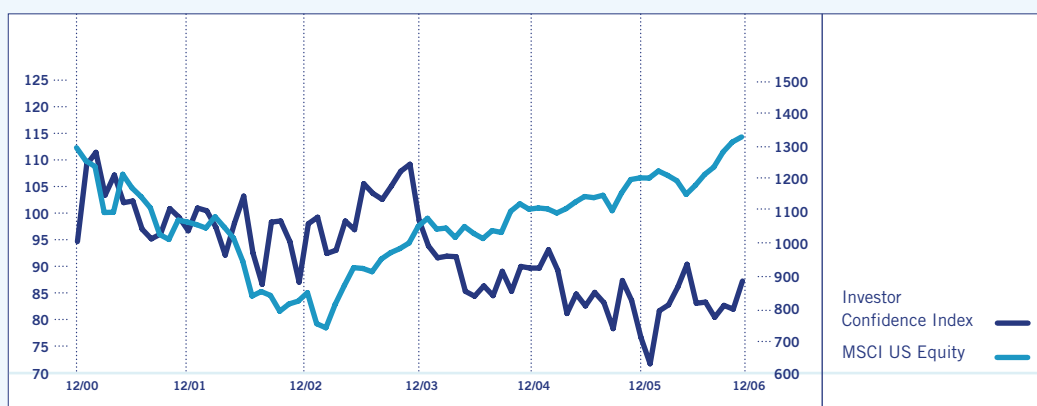
The index uses the aggregated portfolios of the world's most sophisticated investors, representing approximately 15 percent of the world's investable securities, together with the model of Froot and O'Connell to create the State Street measure of investor confidence. The index shows the risk appetite of these sophisticated investors by aggregating the common buying patterns of risky investments, and how these allocations evolve over time.

State Street Global Markets' investor behavior research into the flows, holdings and borrowings of the world's sophisticated investors models activity across more than 45 countries and across asset classes, represented in more than 22 million security transactions annually. This research provides insight on the behavior of institutional investors over time providing a complete portfolio perspective of equity, fixed income, currency and securities lending markets and the correlation of activity into and between asset classes, geographies and sectors.

COMPARISON WITH GLOBAL EQUITY PERFORMANCE

- > The most dramatic fall in investor confidence in recent years occurred in August of 1998, when Russia defaulted on its debt, LTCM, a large global hedge fund, failed, and stock prices fell. At this time, the confidence indicator suggested it was confidence, not fundamentals that brought stock prices down. Investors simply did not want to hold as many risky assets during that period of turmoil.
- > At the onset of the last bear market, during the final four months of 2000, confidence fell substantially as U.S. stock prices fell 13 percent. Confidence improved in January and February of 2001, suggesting that the subsequent declines in stock prices were driven primarily by fundamentals.
- > After the first public release of the index on 23 September 2003, confidence continued to rise through the remainder of 2003, reaching its highest point since 2000. Prices rose as investors became more confident.
- > In the first part of 2004, on the other hand, the index fell substantially. Global equity prices felt the effects, with the MSCI¹ All-Country Index falling 0.65 percent in the year to 30 August 2004, as rising interest rates and oil prices dimmed investor enthusiasm.
- > Investor confidence recovered throughout the remainder of 2004. Over the same period, global equities rallied by 12 percent. Through most of 2005, the index waned as high oil prices and increasing interest rates weighed on investor sentiment. Equity prices remained broadly flat, seeming to indicate that fundamentals were primarily supporting the market.

FIGURE 1 (TO DECEMBER, '06)



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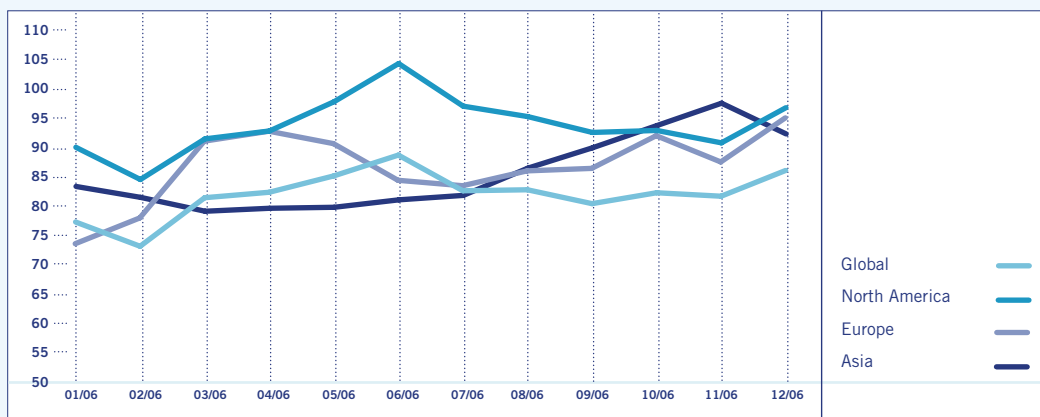
REGIONAL INVESTOR CONFIDENCE

From January 2005, State Street began tracking three regional components of Investor Confidence; North America, Europe, and The Asia-Pacific Region. Each regional component analyzes the actual and changing levels of risk contained in investment portfolios domiciled in each of these regions, providing a regional perspective on investor confidence. The North American component captures the confidence of U.S. and Canadian investors as it is reflected in their purchases of assets all around the world. Similarly, Europe consists of institutional investors in continental Europe, the UK and Ireland and Asia-Pacific includes Asia, Australia and New Zealand.

The three regional components are calculated from January 2005, and are based so that, together, they average to the global index in that month. The percentage of the global index that each region represents varies over time, since it depends on the activities of each regional group of investors. Some investors, for example those domiciled in South America, who are included in the index are not represented in the regional components.

- > The confidence of North American investors remained above that of European and Asian investors throughout 2005. The indicators converged after the middle of the year, as Asian and European investors allocated more capital towards equities and away from safe investments. Asian investors reacted favorably to China’s currency revaluation and European investors were able to digest political events and interest rate policy to focus on market fundamentals.

FIGURE 2 (TO DECEMBER, '06)



THIS IS STATE STREET

INVESTMENT MANAGEMENT

State Street Global Advisors, one of the world's leading managers of institutional assets, provides disciplined, systematic investment strategies for clients of every size and investment objective. Our active, enhanced and passive strategies capitalize on technological and intellectual innovation. We also offer integrated solutions and trading services to customers who wish to outsource aspects of their investment programs.

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