



## Multi-Manager Small Cap Fund (NMMSX)

1Q 2016 Performance Review

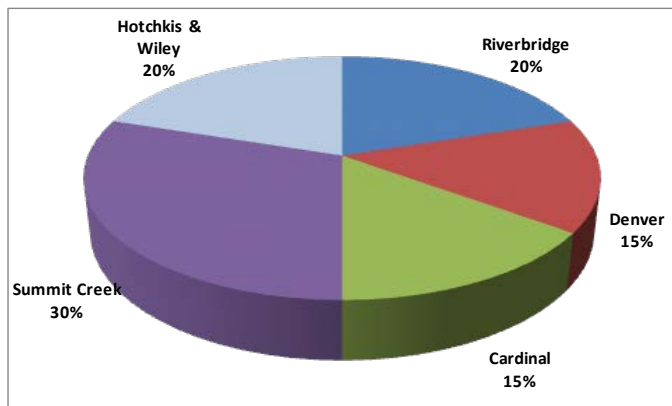
*Please carefully read the prospectus and summary prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds before investing. Call **800-595-9111** to obtain a prospectus and summary prospectus, which contains this and other information about the funds.*

# Multi-Manager Small Cap Fund (NMMSX)

## Fund Facts

**Fund Objective:** Capital Appreciation  
**Inception Date:** June 22, 2006  
**Ticker Symbol:** NMMSX  
**Benchmark:** Russell 2000<sup>®</sup> Index

## Sub-Adviser Target Allocations\*



\*Actual allocations may vary.

## Strategy Objectives

- Add value through the combination of sub-advisers who are specialists in their respective styles. This approach should isolate the stock selection skills of the sub-advisers as the primary source of value added for the Fund over time.
- Leverage a disciplined and consistent research process to identify sub-advisers who show high probability of success.
- Maintain the target allocations of the sub-advisers while continuously monitoring the style and characteristics of the Fund and sub-advisers to ensure that the Fund equally balances growth and value objectives while maintaining size (capitalization) characteristics similar to the Fund's market benchmark.
- *By properly combining sub-advisers, we attempt to reduce low conviction bets such as style and size and focus the risk of the portfolio on higher conviction bets – the stock picking skills of the sub-advisers.*

## Portfolio Characteristics

- Well diversified portfolio, benchmarked to the Russell 2000 Index.
- The Fund currently uses five sub-advisers with various investment approaches.
- Due to the diversification that characterizes the Fund, it may lag during unusually strong up markets while providing good capital preservation in down markets.
- Style characteristics are designed to be neutral to the Index.

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**Weighted Average Market Capitalization:** a firm's closing stock price multiplied by the number of shares.

**% EPS Growth – past 5 years:** a 5 year annualized earnings growth rate. Earnings per share is a part of a company's profit which is allocated to an individual outstanding share of common stock. As viewed by the investor, it is the rate of earnings which are returned on the original investment made. Also known as EPS for short, the earnings per share can be used to indicate a corporation's financial profitability.

**Positive Trailing P/E:** the ratio of a firm's closing stock price and its trailing 12 months' earnings per share, excluding those companies with negative earnings. A P/E ratio is generally used to provide investors with a better understanding of a company's value.

**Price to Book:** a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current price of the stock by the latest quarter's book value per share. The higher the ratio, the higher the premium the market is willing to pay for the company above its hard assets.

**Russell 2000<sup>®</sup> Index:** An index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 10% of the total market capitalization of the Russell 3000 Index. It is not possible to invest directly in an index.

**Russell 2000<sup>®</sup> Growth Index:** An index that measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. It is not possible to invest directly in an index.

**Russell 2000<sup>®</sup> Value Index:** An index that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an index.

**Equity Risk:** Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes.

**Small Cap Risk:** Small capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Their stocks are subject to a greater degree of volatility, trade in lower volume and may be less liquid.

Please refer to the Fund's prospectus for further information relating to principal risks.



#### QUARTERLY COMMENTARY

- The Multi-Manager Small Cap Fund returned -0.58% for the quarter, outperforming the Russell 2000 Index return of -1.52%. Strong stock selection within the consumer and healthcare sectors drove relative outperformance during the period. Stock selection within the technology sector detracted. Sector allocation contributed modestly to quarterly results, as the Fund benefited from an overweight to industrials.
- Among the sub-advisers, results were within expectations. Value-oriented sub-adviser Denver Investment Advisors delivered a strong quarter, driven by strength in the consumer and financials sectors. The higher-risk strategy managed by Hotchkis & Wiley underperformed during the quarter, as it came under pressure during the sell-off early in the period.

#### PERFORMANCE (in %) as of March 31, 2016

	Quarter	YTD	1 Year	3 Years	5 Years	Inception to Date	2015	2014	2013	2012	2011
<b>Multi-Manager Small Cap Fund - Inception 6/22/06</b>	-0.58	-0.58	-6.89	7.68	6.98	5.46	-3.27	3.98	39.58	14.31	-5.07
Russell 2000	-1.52	-1.52	-9.76	6.84	7.20	6.47	-4.41	4.89	38.82	16.35	-4.18
<i>Excess Return</i>	<i>0.94</i>	<i>0.94</i>	<i>2.87</i>	<i>0.83</i>	<i>-0.22</i>	<i>-1.01</i>	<i>1.15</i>	<i>-0.92</i>	<i>0.76</i>	<i>-2.04</i>	<i>-0.90</i>
<i>Annual Expense Ratio: Gross, 1.19%; Net, 1.13%<sup>1</sup></i>											

Returns quoted represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may worth more or less than their original cost. Current performance may be lower or higher. Visit [northernfunds.com](http://northernfunds.com) for returns current to the most recent month-end. Returns for periods greater than one year are annualized. Net expense ratio reflects voluntary expense reimbursements by the Fund's investment advisors that may be changed or terminated at any time. See the Appendix for additional disclosure about performance.

<sup>1</sup>The Gross and Net Expense Ratios are as of the most recent prospectus. The Net Expense Ratio includes contractual expense reimbursements that, if not extended, will end of July 31, 2016.

The Fund benchmark is the Russell 2000 Index.



# Multi-Manager Small Cap Fund (NMMSX)

## Fund Characteristics

1Q | 2016

### FUND FACTS

**Fund Objective:** Capital Appreciation  
**Inception Date:** June 22, 2006  
**Ticker Symbol:** NMMSX  
**Benchmark:** Russell 2000® Index

### 5 LARGEST HOLDINGS

Company	% of Fund
Bio Techne Corp	1.7%
Maximus Inc	1.6%
Costar Group Inc	1.5%
Proto Labs Inc	1.5%
Health Care Group In	1.4%
<b>Total*</b>	<b>7.7%</b>

### FUND CHARACTERISTICS

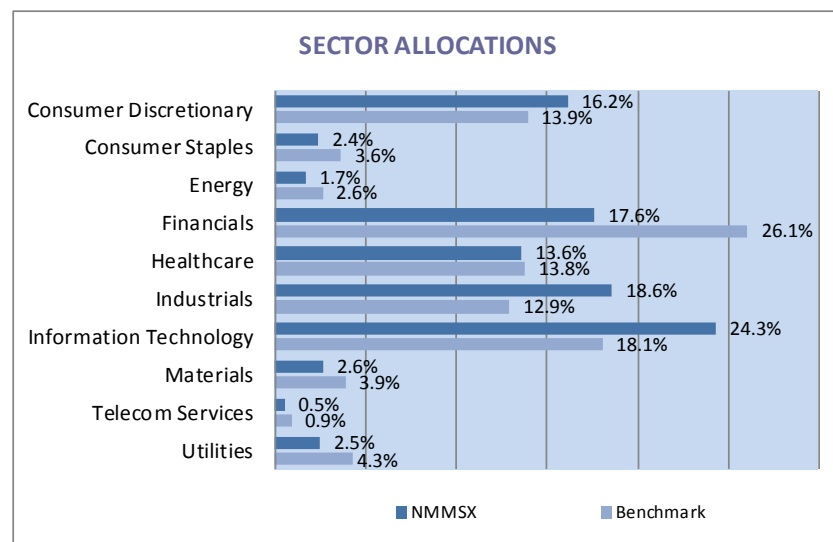
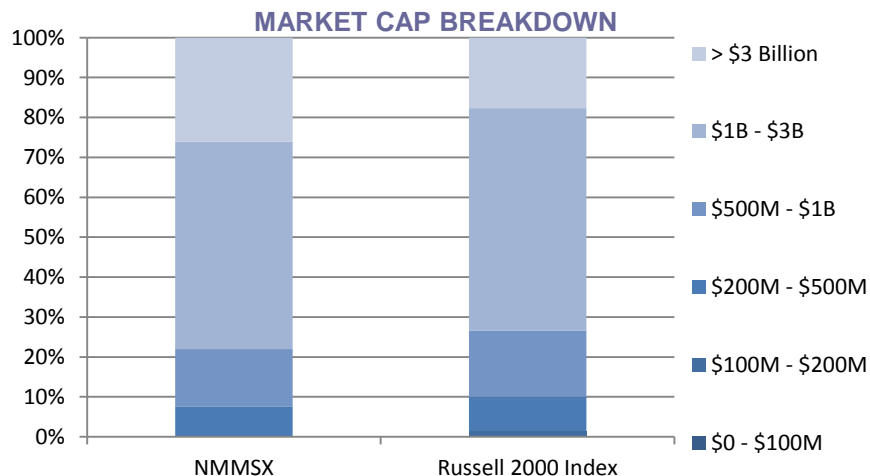
	NMMSX	Benchmark
Wtd Avg Market Cap	\$2.3 Billion	\$1.9 Billion
% EPS Growth - Past 5 yrs	7.06%	9.10%
Positive Trailing P/E	21.77x	20.4x
Price to Book	2.10	1.82
Number of Holdings**	253	1961

\*The "Total" column may not sum exactly due to rounding.

\*\*Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas



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## Sub-Adviser 1Q 2016 Review

# Multi-Manager Small Cap Fund (NMMSX)

## Sub-Adviser Allocation and Portfolio Characteristics

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### SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
Summit Creek Advisors LLC	30%	Traditional growth approach. Strategy tends to exhibit a high quality bias and is benchmark agnostic with a bias towards traditional growth sectors.
Riverbridge Partners, LLC	20%	Concentrated strategy focused on high-quality, growth companies.
Cardinal Capital Management LLC	15%	Relative value strategy with a focus on future cash flows. The portfolio tends to have material exposure differences versus the benchmark.
Denver Investment Advisors, LLC	15%	Value manager with focus on dividend-paying companies. Should provide attractive downside protection.
Hotchkis and Wiley Capital Management, LLC	20%	Traditional value style that seeks to take advantage of short-term mispricing, looking for significant discounts in valuations.

### PORTFOLIO CHARACTERISTICS

	Summit Creek	Riverbridge	Russell 2000 Growth Index	Cardinal	Denver	Hotchkis & Wiley	Russell 2000 Value Index	NMMSX	Russell 2000 Index
Wtd Avg Market Cap	\$2.3 Billion	\$2.4 Billion	\$2 Billion	\$2.4 Billion	\$2.4 Billion	\$2.1 Billion	\$1.8 Billion	\$2.3 Billion	\$1.9 Billion
% EPS Growth - Past 5 yrs	10.14%	8.00%	13.06%	7.24%	3.63%	3.80%	5.45%	7.06%	9.10%
Positive Trailing P/E	27.1x	31.5x	23.1x	20.9x	20.9x	14.4x	18.4x	21.8x	20.4x
Price to Book	3.85	3.25	3.38	1.94	1.72	1.10	1.27	2.10	1.82
Number of Holdings**	49	53	1,183	50	71	55	1,327	253	1,961

\*Actual allocations may vary.

\*\*Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas



### SUMMIT CREEK ADVISORS

- Small Cap Growth stocks declined significantly through February 11, 2016 and rose rapidly for the remainder of the quarter. As has been the case in similar market environments, Summit Creek's portfolio did well during the downtrend and trailed modestly during the up phase. Sector allocation was favorable during the quarter, though stock selection – particularly in health care and industrials – was contributed positively to relative results. The manager invests in businesses with long track records of steady sales and earnings growth and an expectation for that growth to continue. These highly profitable, high quality businesses were the best performers during the first quarter.
- Summit Creek remains optimistic on business trends for small cap growth stocks. Conversations with company management teams for both companies in the Portfolio and those under consideration lead the portfolio managers to believe delivering weighted average earnings growth above 20% is a reasonable expectation for 2016. Valuations have risen since the mid first quarter bottom, but part of the increase is attributable to investing in higher growth companies at reasonable valuations during the weaker market. At slightly above the middle of the historical valuation range, the outlook for 2016 returns remains constructive.

### RIVERBRIDGE PARTNERS

- Riverbridge Partners' holdings in the industrial sector contributed to the fund's performance in the first quarter. In addition, a lack of exposure to the energy sector also acted as a buoy for relative results. Conversely, holdings in information technology detracted the most from relative performance.
- Riverbridge continues to focus on a long-term oriented investment approach that emphasizes companies that can sustain above average rates of growth for long period of time. They feel that the Federal Reserve (and its likely rate increases) will heavily influence short-term market movement. Furthermore, election year presidential rhetoric will likely unnerve some investors. High levels of volatility will test the resolve of market participants. Despite this challenging backdrop, the manager is optimistic over the prospects of the companies in their Portfolio. Collectively, these stocks have low levels of debt and generate high levels of free cash flow. They have management teams that are focused on the next decade as opposed to the next quarter.



### DENVER INVESTMENT ADVISORS

- During the first quarter of 2016, Denver Investment Advisors' strong stock selection in consumer discretionary and financials contributed to relative results. An overweight in industrials and an underweight within financials was also a meaningful contributor to performance. The fund experienced its biggest challenges in terms of relative contribution within materials, energy, and utilities sectors. Disappointing performance within energy was a combination of the manager's sector weight and stock selection.
- As the year began, stocks declined as oil and gas prices languished at levels that were creating credit concerns for many energy companies. However, as evidence grew that oil and gas production was steadily declining and a global agreement on a production freeze took shape, energy prices turned upward. By the end of the quarter, crude oil prices were up nearly 50% from their lows. Furthermore, with concerns about global economic weakness, the Federal Reserve began toning down their interest rate rhetoric and it appeared likely that only one or two more rate hikes may be in the offing in 2016. This in turn caused the U.S. dollar to back off from its upward climb, potentially reducing some of the export pressure on U.S. companies.

### CARDINAL

- Cardinal trailed the return of the Russell 2000 Value Index during the first quarter of 2016. The main contributor to the manager's performance was stock selection in the energy, industrials, and consumer discretionary sectors, which were more than offset by stock selection in the information technology and materials sectors. Additionally, the lack of investments in the better performing utilities sector also detracted material from overall performance.
- Looking forward, the team expects U.S. economic growth to remain moderate and inflation benign. Short-term U.S. interest rates are expected to rise at a measured pace given the negative interest rate policies of Europe and Japan and the desire to keep the U.S. dollar from appreciating further. Although off its lows, the price of oil is unlikely to move meaningfully higher this year unless oil producing countries agree to cut output. Global economic uncertainty remains elevated outside the U.S. While the short-term economic environment in Europe has improved faster than expected, growth rates in China are not likely to see significant improvement over last year. Given the scarcity of growth and the value that can be created through consolidation, the M&A market should improve as long as capital remains available at reasonable rates. Despite low oil prices and weak global economies, U.S. corporate earnings should grow modestly as the U.S. dollar shifts from a headwind to a tailwind. Cardinal's portfolio company managements continue to actively deploy their free cash flow through share repurchases, dividends and opportunistic acquisitions which should bode well for future value creation.

#### HOTCHKIS & WILEY

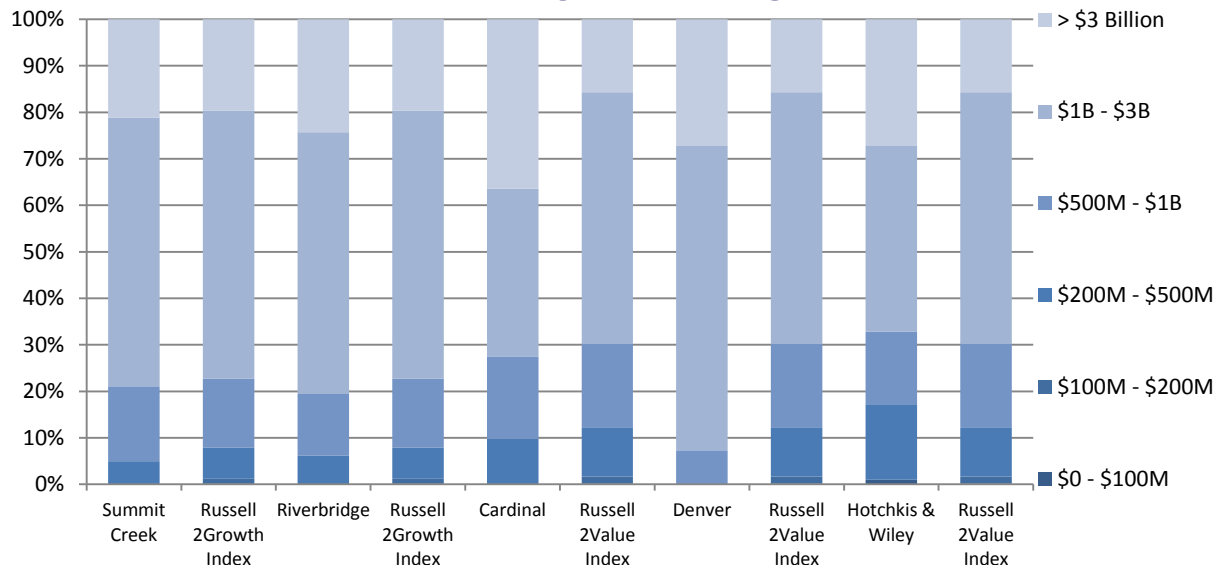
- Hotchkis & Wiley Small Cap Value Fund underperformed its benchmark, the Russell 2000 Value Index, in the first quarter of 2016. The overweight exposure and stock selection in health care was the primary detractor to relative performance over the quarter. Stock selection in technology and consumer discretionary also weighed on returns. Positive stock selection in materials and utilities were the primary performance contributors during the quarter.
- In most market environments, some small cap sectors/industries are coveted while others are shunned depending on the market's disposition at the time. The manager feels this behavior often results in a market that exhibits a bifurcation in stock valuations. Currently, this dichotomy is quite pronounced. Investors are fearful that the economic woes in China and other emerging economies will spill over into the US and other developed markets. This fear has caused investors to pay 20x earnings or more for the perceived safety of non-cyclicals - like consumer staples or real estate - and sell cyclicals - like energy or industrials - at a fraction of the valuation. When "safe" stocks trade at excessive valuations they become risky, not safe, which is the market's current paradox. Taking the long-term view, Hotchkis & Wiley's investment team sees compelling risk-adjusted valuation opportunities in select small cap market segments that have been shunned.

# Multi-Manager Small Cap Fund (NMMSX)

## Sub-Adviser Market Capitalization & Sector Allocations

1Q | 2016

### MARKET CAP BREAKDOWN



### SECTOR ALLOCATIONS

	Summit Creek	Riverbridge	Russell 2000 Growth Index	Cardinal	Denver	Hotchkis & Wiley	Russell 2000 Value index	NMMSX	Russell 2000 Index
Consumer Discretionary	23.0%	14.9%	18.1%	12.4%	15.4%	10.1%	9.9%	16.2%	13.9%
Consumer Staples	2.4%	4.4%	3.7%	0.0%	5.2%	0.0%	3.6%	2.4%	3.6%
Energy	0.0%	0.0%	1.0%	4.6%	2.8%	3.0%	4.1%	1.7%	2.6%
Financials	2.8%	4.2%	8.4%	31.0%	38.2%	28.9%	43.0%	17.6%	26.1%
Healthcare	17.3%	21.4%	23.8%	9.2%	5.7%	9.1%	4.2%	13.6%	13.8%
Industrials	15.0%	19.3%	14.1%	21.4%	13.5%	25.2%	11.8%	18.6%	12.9%
Information Technology	35.6%	35.8%	25.6%	16.3%	11.4%	10.8%	10.8%	24.3%	18.1%
Materials	2.5%	0.0%	4.3%	4.6%	3.1%	3.8%	3.4%	2.6%	3.9%
Telecom Services	1.4%	0.0%	0.9%	0.5%	0.0%	0.0%	0.9%	0.5%	0.9%
Utilities	0.0%	0.0%	0.1%	0.0%	4.5%	9.1%	8.2%	2.5%	4.3%
Total*	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

\*The "Total" column may not sum exactly due to rounding.  
 Portfolio composition may change at any time.  
 Source: Wilshire Atlas





## Appendix

- Disclosure of additional information

# Appendix: Disclosures

- **Past performance does not guarantee future results.**
- Total return is based on net change in NAV, assuming reinvestment of all distributions. Returns for periods greater than one year are annualized. Returns of an index do not reflect the deduction of any management fees, transaction costs or other expenses. Direct investment in an index is not possible.
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- Portfolio sector and characteristics comparisons are provided to illustrate sector allocations and characteristics for each Fund/sub-adviser's strategy versus their respective benchmarks as of the date indicated. The information in this presentation reflects prevailing market conditions and our judgment as of this date, which are subject to change. In preparing this presentation we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.
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