ACTIVE FIXED INCOME QUARTERLY UPDATE

June 30, 2017

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SUMMARY:

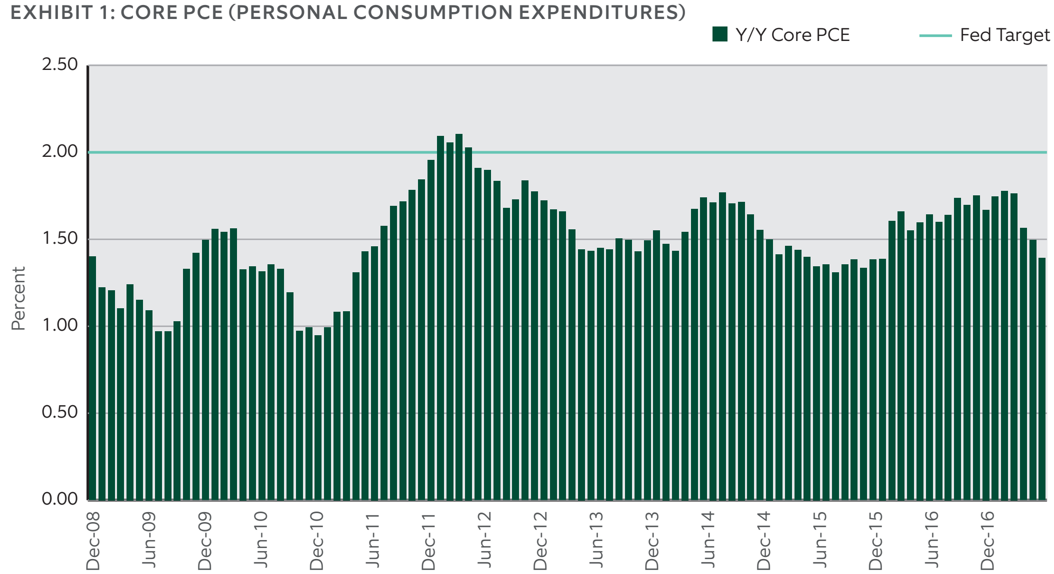
- **Global economic data improved, but the slow growth and low inflation in the U.S. continued.**
- **We tactically repositioned portfolios as U.S. growth disappointed, but we remain overweight credit risk.**
- **Core and core plus portfolios outperformed their Bloomberg Barclays U.S. Aggregate Index benchmark.**

U.S. ECONOMIC GROWTH CHALLENGED

Global economic growth improved in the second quarter and provided a stable foundation for financial markets, but the U.S. remains in the slow-growth channel that has characterized this entire economic expansion. Late in the quarter the International Monetary Fund (IMF) downgraded its estimate of U.S. growth in 2017 and 2018. The IMF sees broad uncertainty around U.S. fiscal policy and removed assumptions that President Donald Trump's plan to cut taxes and boost infrastructure spending will be enacted. In the IMF's view, the U.S. economy will experience headwinds from low productivity growth and an aging population.

Inflation and inflation expectations moved lower in the second quarter too. The Federal Reserve's preferred inflation measure peaked in January and declined on a year-over-year basis since. Inflation has been below the Fed's 2% target for the last five years, which the Fed noted as a matter of concern in its June meeting.

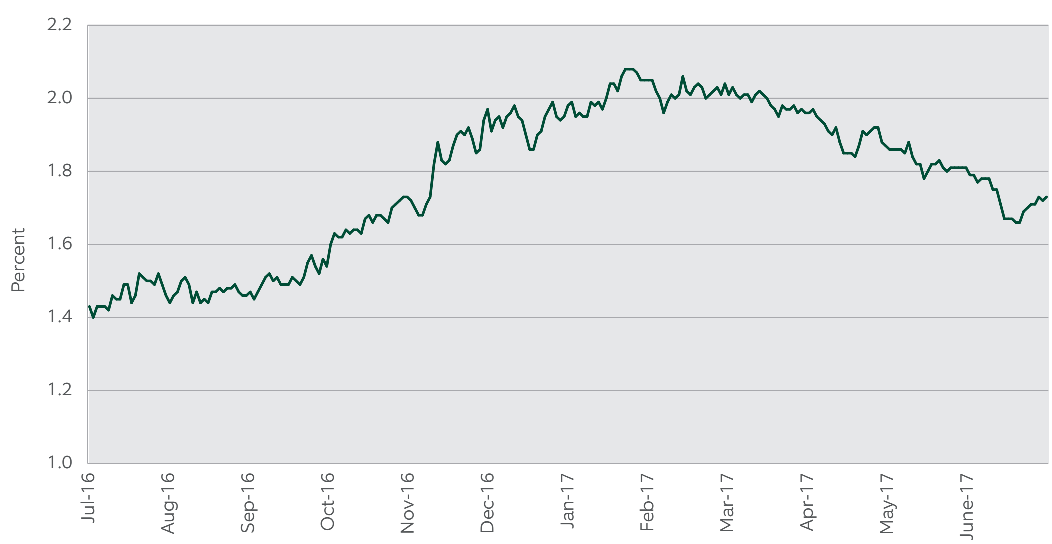
EXHIBIT 1: CORE PCE (PERSONAL CONSUMPTION EXPENDITURES)



SOURCE: Northern Trust Fixed Income, Bloomberg Barclays

As economic and inflation data came in lower than estimates, inflation expectations expressed in Treasury inflation protected securities (TIPS) moved lower, reflecting the belief by investors that the slow growth, low-inflation environment may continue.

EXHIBIT 2: TIPS 10 YEAR BREAKEVEN INFLATION RATE



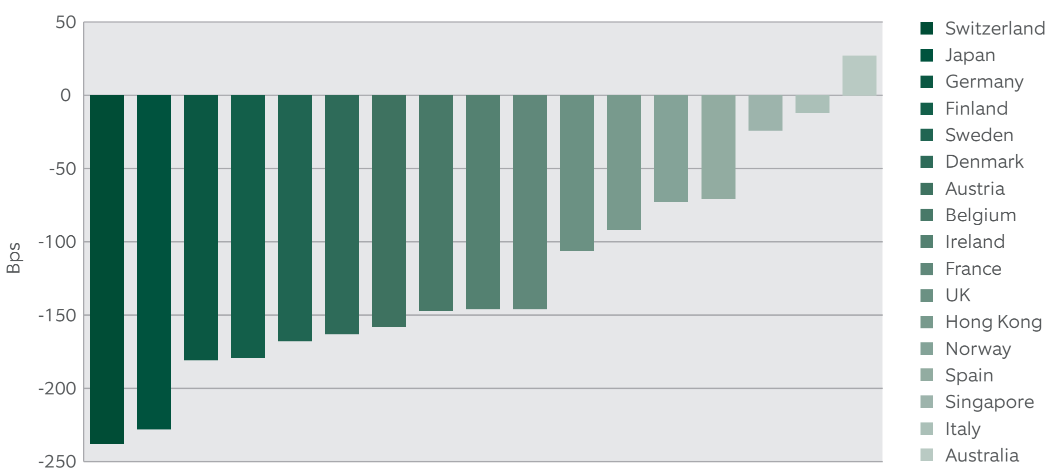
SOURCE: Northern Trust Fixed Income, Federal Reserve Bank of St. Louis

The Fed raised the benchmark federal funds rate in June for the second time this year to a range of 1.00% to 1.25%. While Fed Chair Janet Yellen believes slowing inflation is transitory, she said the Fed is watching this closely. The Fed believes the labor market is getting tighter and wages may begin to accelerate as we enter the eighth year of this expansion and the unemployment rate is at its lowest in 16 years. Important for investors, Yellen noted after the meeting that the Fed's accommodative monetary policies should continue to be removed slowly.

YIELD CURVE FLATTENS

While expectations for an interest rate hike at the Fed's June meeting drove short-rates higher, disappointing growth, lower inflation and declining inflation expectations drove long-term interest rates lower and flattened the yield curve. Late in the quarter, Mario Draghi, chair of the European Central Bank (ECB), sounded upbeat in his comments about the European economy, suggesting the ECB may announce plans to purchase fewer bonds in its quantitative easing program sooner than investors had anticipated. This caused sovereign debt yields across Europe and the U.S. to rise at quarter-end. U.S. Treasuries continue to have a tremendous yield advantage over debt in other developed economies and drive foreign investors into the U.S. market.

EXHIBIT 3: DEVELOPED MARKETS SPREAD TO TEN YEAR U.S. TREASURIES



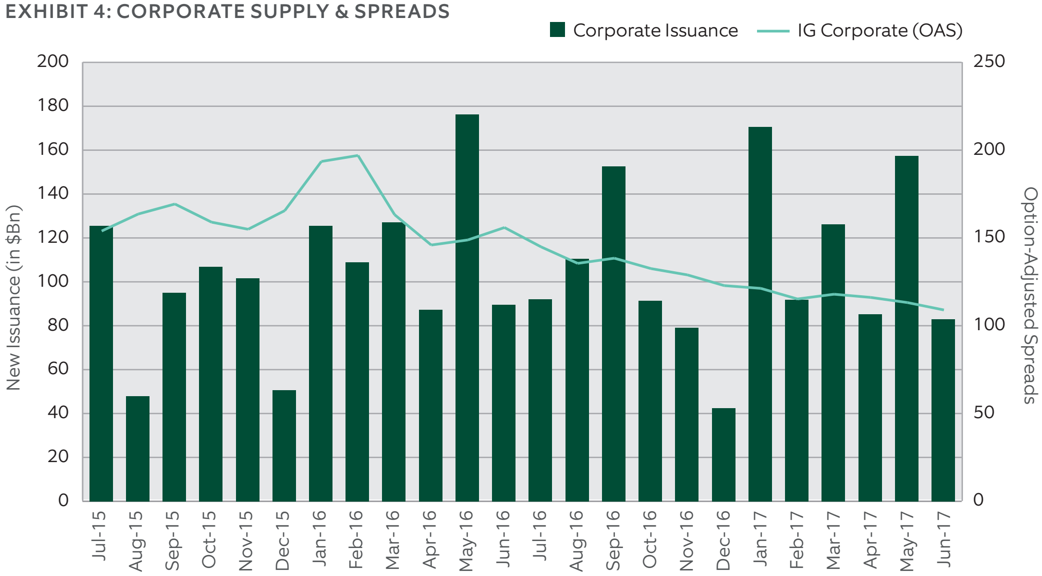
SOURCE: Northern Trust Fixed Income; Bloomberg Barclays

Our portfolios were short overall duration relative to their benchmarks in April. We believed 10-year U.S. Treasury yields were likely to rise in the near-term as investors focused on the potential for better growth and higher inflation from Trump's pro-growth agenda. As the quarter wore on, weak data, uncertainty around pro-growth initiatives, and continuation of accommodative policies of central banks led us to tactically change positioning. We removed the underweight to duration, adding bonds with 10- to 30-year maturities, preferring to wait for a better opportunity to express our view that long-term interest rates will rise. Being short duration in portfolios over the first part of the quarter was a small detractor to performance. The overweight position to bonds maturing in the 10- to 30-year part of the interest rate curve was a positive contributor to performance.

MASSIVE NEW ISSUANCE, YET TIGHTER CREDIT SPREADS

Investment-grade credit spreads contracted during the quarter and ended at their tightest since September 2014, even though issuers continued to flood the market. At the mid-point of the year, investment-grade bond issuance was on pace to set another record after four straight record years. The contraction of credit spreads in the face of massive new issuance is a testament to investor demand for yield.

EXHIBIT 4: CORPORATE SUPPLY & SPREADS



SOURCE: Northern Trust Fixed Income; Bloomberg Barclays, SIFMA, Thomson Reuters

We were overweight credit risk assets such as investment-grade and high-yield corporate bonds in the quarter. This provided a positive contribution to performance as credit spreads narrowed once again. Looking forward, we still prefer corporate bonds as a way to improve total returns. Credit fundamentals have deteriorated due to shareholder friendly activities and record merger and acquisition activity over the past few years. We believe this trend may reverse in 2017, driven by improved corporate earnings and cash flows.

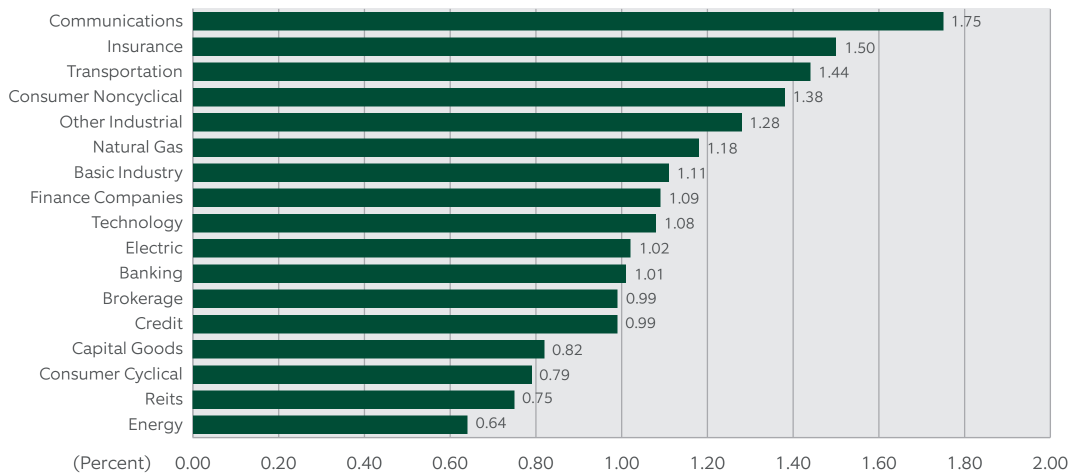
We sold our position in TIPS in the quarter as weak inflation data drove break-evens lower and detracted from our performance. The proceeds from selling TIPS went to AAA-rated agency mortgage-backed securities (MBS). MBS have cheapened this year as investors worry about how the market will handle Fed sales from its balance sheet. The Fed laid out plans to do this at their June meeting, noting their desire to start the process this year. We believe the Fed desires to sell bonds slowly to avoid disrupting the MBS market and believe this asset class will benefit as investors realize sales will be a non-event.

SECURITY SELECTION: ADDING TO CORPORATE BONDS

We've taken more risk in our portfolios since the U.S. election last November, adding corporate bonds. Corporate bond security selection contributed to performance in the quarter as credit spreads tightened. Portfolios were overweight bonds in the energy sector though. Energy bonds underperformed as oil prices fell and this detracted from overall security selection performance.

We remain overweight exposure to the banking sector and specifically U.S. banks. U.S. banks underperformed other sectors in the investment-grade bond market in 2016, but we believe they offer a relative value opportunity. Late in the quarter the Fed announced approval of capital plans for all 34 large banks required to participate in the comprehensive capital analysis and review (CCAR). This is the first time since the financial crisis the Fed has approved capital plans for all participants, showing the Fed believes these institutions have strong capital positions. U.S. banks are also often some of the largest and most liquid issuers in the investment-grade universe, key considerations in constructing high quality, well diversified, and liquid investment portfolios that characterize our core and core plus strategies.

EXHIBIT 5: EXCESS RETURNS BY SECTOR – PAST 3 MONTHS



SOURCE: Northern Trust Fixed Income; Bloomberg Barclays

We've been underweight two higher quality sectors of the market, albeit for different reasons. We've been underweight the technology sector as, generally speaking, companies in this sector are of higher quality and trade at lower credit spreads. Bonds of these companies offer less opportunity to appreciate in this environment in our view. We've also been underweight the pharmaceutical sector. While companies in this space are also generally of higher quality, we've been underweight due to the headline risk we believe exists from Trump's focus on reducing prices of the drugs they sell.

EXHIBIT 7: PERFORMANCE AS OF JUNE 30, 2017

NORTHERN FUNDS	1-Year Return	3-Year Avg. Annual Return	5-Year Avg. Annual Return	10-Year Avg. Annual Return	Avg. Annual Since Inception	Gross Expense Ratio	Net Expense Ratio	Inception Date
Northern Core Bond Fund[1]	-0.43%	2.22%	2.37%	4.70%	4.59%	0.47%	0.43%	3/29/01
Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index	-0.31%	2.48%	2.21%	4.48%	4.70%	–	–	–
Northern Fixed Income Fund[1]	0.53%	2.23%	2.72%	4.48%	5.13%	0.49%	0.47%	4/1/94
Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index	-0.31%	2.48%	2.21%	4.48%	5.56%	–	–	–
Northern Short Bond Fund	0.97%	0.86%	1.10%	2.44%	3.98%	0.43%	0.41%	1/11/93
Benchmark: Bloomberg Barclays 1–3 Year U.S. Government/Credit Index	0.35%	0.95%	0.95%	2.30%	3.95%	–	–	–
Northern Short-Intermediate U.S. Government Bond Fund[1,2]	-1.25%	0.61%	0.39%	2.14%	2.98%	0.49%	0.43%	10/1/99
Benchmark: Bloomberg Barclays 1–5 Year U.S. Government Index	-0.52%	1.06%	0.87%	2.64%	3.54%	–	–	–
Northern U.S. Government Fund[1,2]	-1.99%	1.07%	0.58%	2.92%	4.05%	0.83%	0.46%	4/1/94
Benchmark: Bloomberg Barclays Intermediate U.S. Government Bond Index	-1.25%	1.47%	1.07%	3.39%	4.65%	–	–	–

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown here. Performance data current to the most recent month end is available by calling 800-595-9111.

The Advisor has agreed to reimburse certain expenses of the Fund. The contractual reimbursement arrangement is expected to continue until at least July 31, 2017. After this date, the contractual arrangements may be terminated if it is determined to be in the best interest of the Fund and its shareholders. In the absence of fee waivers, yield, total return, growth since inception and dividends would have been reduced. Total return is based on net change in NAV assuming reinvestment of distributions.

Annualized for periods greater than one year.

[1]**Mortgage-Backed Securities Risk:** Mortgage-backed investments involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, the Fund's performance may be more volatile than if it did not hold these securities.

[2]**U.S. Government Guarantee:** U.S. government guarantees apply only to the underlying securities of a Fund's portfolio and not the Fund's shares.

Alpha: Measures a fund's risk-adjusted performance and represents the difference between a fund's actual performance and its expected performance, given its level of risk.

Bloomberg Barclays 1 – 3 Year U.S. Government/Credit Index is an unmanaged index of securities issued by the U.S. government and corporate bonds with maturities of one to three years. It is not possible to invest directly in an index.

Bloomberg Barclays 1 – 5 Year U.S. Government Index is an unmanaged index of securities issued by the U.S. government with maturities of one to five years. It is not possible to invest directly in an index.

Bloomberg Barclays Intermediate U.S. Government Index is an unmanaged index including all public obligations of the U.S. Treasury and all publicly issued debt of U.S. government agencies with maturities of up to 10 years. It is not possible to invest directly in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of prices of U.S. dollar-denominated investment-grade fixed income securities with remaining maturities of one year and longer. It is not possible to invest directly in an index.

Basis Points (bps): Unit of measure used in quoting yields, changes in yields or differences between yields. One basis point is equal to 0.01%, or one one-hundredth of a percent of yield and 100 basis points equals 1%.

Beta: Beta represents the systematic risk of a portfolio and measures its sensitivity to a benchmark.

Bond Risk: Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates.

ERISA: Employee Retirement Income Security Act of 1974 (ERISA) enacted rules for U.S. qualified plans to help protect the retirement assets.

Option-adjusted spread (OAS) is the difference in yield between two fixed income securities (generally between a fixed income security with credit risk and a comparable treasury bond), adjusted for differences in duration and embedded options.

Yield-to-Worst (YTW) is the lowest potential yield that can be received on a bond assuming options available to the issuer are exercised.

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.

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