

INVESTMENT STRATEGY COMMENTARY

NORTHERN MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

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High Yield Market and Fund Commentary
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Recent weakness in the high-yield corporate credit market has been fueled by the dramatic decline in oil prices, long-awaited monetary policy move by the Federal Reserve, and mixed economic signals. Liquidity in the high-yield bond market has declined over the past few years, as strict capital requirements at the banks have limited their ability to deploy trading capital. Moreover, recent outflows from high-yield mutual funds and ETFs have dampened market liquidity. **However, a majority of the high-yield market can trade efficiently and has traded in an orderly manner.**

Last week, Third Avenue's Focused Credit Fund decided to adopt a Plan of Liquidation due to its inability to meet daily liquidity, making headlines and exacerbating anxiety about liquidity conditions in the high-yield market that were already high. However, to assess the meaning of this news, Third Avenue's investment approach must be considered. Third Avenue was focused on distressed issuers, taking concentrated positions in the riskiest segment of the market. Such debt instruments are oftentimes innately illiquid and can take several months, if not years, to realize their value potential. **The Northern Multi-Manager High Yield Opportunity Fund (NMHYX) is focused on performing (i.e. coupon-paying) high-yield issuers that are more reflective of the broad market, not the distressed issuers in which Third Avenue was invested.**

When liquidity is weak and technical conditions in the market are challenged (reflected by record outflows from high-yield mutual funds and ETFs), bonds can be purchased at attractive valuations. **For a patient, long-term investor, providing liquidity to a market with reduced liquidity is a real opportunity to capture value, a scenario that is not too dissimilar to the 2008/2009 time period.**

Northern Funds Multi-Manager High Yield Opportunity Fund (NMHYX)

The Multi-Manager High Yield Opportunity Fund has had positive net inflows in October, November and month-to-date in December through the 16th.

During the recent high-yield market sell-off, CCC & Lower rated securities within the BofA Merrill Lynch U.S. High Yield Master II Constrained Index ("Index") have materially lagged the broader Index's return, at -15.7% versus -4.9%, respectively year-to-date through December 17. The Multi-Manager High Yield Opportunity Fund (Fund) has an overweight to CCC & Lower rated securities as of 10/30/15 (at 29.5% vs. 18.8% for the Index¹). The Fund takes an opportunistic approach to off-benchmark sectors and is currently invested in bank loans and convertible bonds. As a result, a large portion of the Fund's CCC exposure comes from the Fund's investment in bank loans which generally provide downside protection versus the high-yield market and are higher in the capital structure.

The Fund's exposure to the energy sector is below that of the Index at 10.0% versus 12.6%¹ for the Index as of 10/30/2015.

¹ Source: BlackRock Solutions



The Fund's year-to-date performance through December 17 is -6.04% versus -4.91% for the BofA Merrill Lynch High yield Master II Constrained Index. Given our Fund's positioning, the recent market volatility and the risk sell-off in the market this is in line with our expectations. Despite the most recent market disruptions, the Fund has outpaced the Index so far during the month of December. Relative performance is being helped by an underweight to the energy industry.

Performance as of December 17, 2015

	Quarter	YTD	1 Year	3 Years	5 Years	Inception to Date
Multi-Manager High Yield Opportunity Fund - Inception 9/23/09	-2.77	-6.04	-4.15	0.84	4.04	5.71
BofA Merrill Lynch High Yield Master II Constrained	-3.52	-4.91	-2.28	1.61	4.96	6.49
<i>Excess Return</i>	<i>0.75</i>	<i>-1.13</i>	<i>-1.87</i>	<i>-0.77</i>	<i>-0.92</i>	<i>-0.78</i>
<i>Annual Expense Ratio: Gross, 1.00%; Net, 0.91%²</i>						

SEE BELOW FOR STANDARD PERFORMANCE AS OF 9/30/15 AND DISCLOSURE

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 at northernfunds.com.

Fund Strategy: The Fund selects complementary managers from a broad universe of investment managers and blends managers into a single fund in an effort to provide an attractive combination of risk and return. The Fund employs a total return approach to high-yield investing to create an attractive risk-return profile. The fund pursues an opportunistic strategy that seeks to invest in a variety of asset classes outside of traditional high yield that offer comparable return potential but lower correlation. The Fund currently uses three sub-advisers with various investment approaches.

SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
DDJ Capital Management, LLC	30%	Concentrated, bottom-up oriented strategy that specifically focuses on the middle market segment of the high yield universe in addition to leveraged loans.
Loomis, Sayles & Company, LP	30%	Opportunistic high-yield strategy employing a bottom-up investment approach focused on attractively priced credits. The portfolio has a broad opportunity set, investing meaningfully outside of traditional high yield.
Neuberger Berman LLC	40%	Traditional high-yield strategy focusing on credit selection as well as allocation among sector and quality segments based on relative value. The portfolio will also invest in bank loans.

*Actual allocations may vary

Performance as of September 30, 2015

	Quarter	YTD	1 Year	3 Years	5 Years	Inception to Date
Multi-Manager High Yield Opportunity Fund - Inception 9/23/09	-5.32	-3.29	-4.37	2.92	5.02	6.43
BofA Merrill Lynch High Yield Master II Constrained	-4.88	-2.50	-3.54	3.47	5.94	7.94
<i>Excess Return</i>	<i>-0.44</i>	<i>-0.79</i>	<i>-0.83</i>	<i>-0.55</i>	<i>-0.92</i>	<i>-1.51</i>
<i>Annual Expense Ratio: Gross, 1.00%; Net, 0.91%</i> ²						

Past performance is no guarantee of future results.

²The Advisor has agreed to reimburse certain expenses of the Fund. The contractual reimbursement arrangement is expected to continue until at least July 31, 2016. 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.

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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.

High-Yield Risk: Although a high-yield fund's yield may be higher than that of fixed-income funds that purchase higher-rated securities, the potentially higher yield is a function of the greater risk that a high-yield fund's share price will decline.

BofA Merrill Lynch U.S. High Yield Master II Constrained Index contains all securities in the BofA Merrill Lynch U.S. High Yield Master II Index, but caps issuer based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

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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