

NORTHERN FUNDS

# Active M U.S. Equity Fund (NMUSX)

## 2Q 2018 Performance Review

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June 30, 2018

*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.*



# ACTIVE M U.S. EQUITY FUND (NMUSX)

## Fund Facts

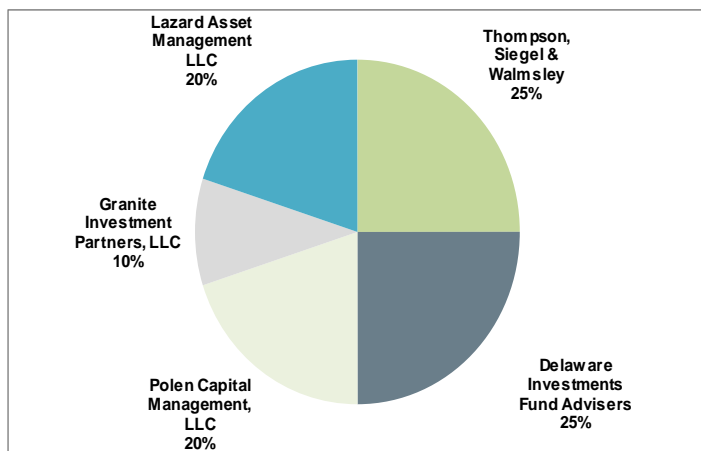
Fund Objective: **Capital Appreciation**

Inception Date: **May 5, 2016**

Ticker Symbol: **NMUSX**

Benchmark: **Russell 3000® Index**

## Sub-Adviser Target Allocations\*



\*Actual allocations may vary.

## Strategy Objectives

- Under normal circumstances, invest at least 80% of net assets in equity securities of U.S. based companies.
- Leverage a disciplined and consistent research process to identify sub-advisers where manager selection and allocations are determined using a multi-factor based screening and optimization approach augmented with deep qualitative and fundamental due diligence.
- 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.
- Continuously monitor the style and characteristics of the Fund and actively manage to the target allocations of the sub-advisers.

*By properly combining sub-advisers, we attempt to deliver robust alpha and broad diversification, while maintaining factor neutral biases (such as size, value and momentum) across the U.S. equity market.*

## Portfolio Characteristics

- Well diversified portfolio, benchmarked to the Russell 3000 Index.
- The Fund currently uses five sub-advisers with various investment approaches.
- Designed to maintain factor neutral biases across the U.S. equity market.



# GLOSSARY

**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.

**Management Risk:** is the risk that a strategy used by the Fund's investment adviser or sub-advisers may fail to produce the intended results or that imperfections, errors or limitations in the tools and data used by the investment adviser or subadvisers may cause unintended results.

**Mid-Cap Risk:** Mid-capitalization stocks typically carry additional risk, since smaller companies generally have higher risk of failure and, historically, their stocks have experienced a greater degree of volatility.

**Multi-Manager Risk:** is the risk that the sub-advisers' investment styles will not always be complementary, which could affect the performance of the Fund.

**Portfolio Turnover Risk:** is the risk that high portfolio turnover is likely to lead to increased fund expenses that may result in lower investment returns.

**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.

**Technology Securities Risk:** is the risk that securities of technology companies may be subject to greater price volatility than securities of companies in other sectors. These securities may fall in and out of favor with investors rapidly, which may cause sudden selling and dramatically lower market prices.

**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.

**Russell 2000® Index:** is 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 MidCap® Value Index:** is an index that measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an index.

**Russell 1000® Growth Index:** is an index that measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. It is not possible to invest directly in an index.

**Russell 1000® Value Index:** is an index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an index.

**Russell 3000® Index:** is an unmanaged index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. These companies represent approximately 98% of the investable U.S. equity market. It is not possible to invest directly in an index.

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

# ACTIVE M U.S. EQUITY FUND (NMUSX)

Fund Performance & Quarterly Fund Commentary

2Q I 2018

## QUARTERLY COMMENTARY

- Despite continued geopolitical activity in the form of trade battles with China and members of the European Union as well as denuclearization talks with North Korea, U.S. equity markets, as measured by the Russell 3000® Index, posted a positive quarter, rising +3.89%. Stable economic growth, low unemployment figures, and positive earnings releases all contributed to the market's rise. Energy was the best performing sector, up over 14%, while financials and industrials were the worst performers, posting negative returns. Smaller capitalization companies outperformed larger caps and growth continued to outperform value except in the small cap space.
- The Active M U.S. Equity Fund finished the second quarter in positive territory and outperformed the Russell 3000® Index, returning 4.33% versus 3.89%, respectively. Both sector allocations and stock selection contributed to the Fund's outperformance. Underweight allocations to financials (mostly in banks) as well as industrials, aided performance and were the strongest performing areas of the Fund for the quarter. Stock selection overall was additive to performance, particularly in consumer staples where an avoidance of tobacco stocks was positive to results. Two areas of weakness from a stock selection basis was in consumer discretionary and information technology. Lastly, the Fund benefited from having an overweight to smaller capitalization stocks.

### PERFORMANCE (in %) as of June 30, 2018

	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Inception to Date	2017	2016	2015	2014
Active M U.S. Equity Fund - Inception 05/05/2016	4.33	4.70	14.55	--	--	--	14.75	17.44	--	--	--
Russell 3000	3.89	3.22	14.78	--	--	--	16.89	21.13	--	--	--
Excess Return	0.44	1.48	-0.23	--	--	--	-2.14	-3.69	--	--	--
Annual Expense Ratio: Gross, 0.73%; Net, 0.68% <sup>1</sup>											

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. Call 800-595-9111 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, 2018.

The Fund benchmark is the Russell 3000 Index.



# ACTIVE M U.S. EQUITY FUND (NMUSX)

## Fund Characteristics

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### FUND FACTS

**Fund Objective:** Capital Appreciation  
**Inception Date:** May 5, 2016  
**Ticker Symbol:** NMUSX  
**Benchmark:** Russell 3000® Index

### 5 LARGEST HOLDINGS

Company	% of Fund
Cisco Sys Inc	2.5%
Coca Cola Co	2.4%
Medtronic Plc	2.2%
Lowes Cos Inc	1.9%
Microsoft Corp	1.8%
<b>Total*</b>	<b>10.7%</b>

### FUND CHARACTERISTICS

	NMUSX	Benchmark
Wtd Avg Market Cap	\$92.9 Billion	\$174.2 Billion
% EPS Growth - Past 5 yrs.	4.36%	8.28%
Positive Trailing P/E	20.4x	21.3x
Price to Book	2.33	2.75
Number of Holdings**	194	3007

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

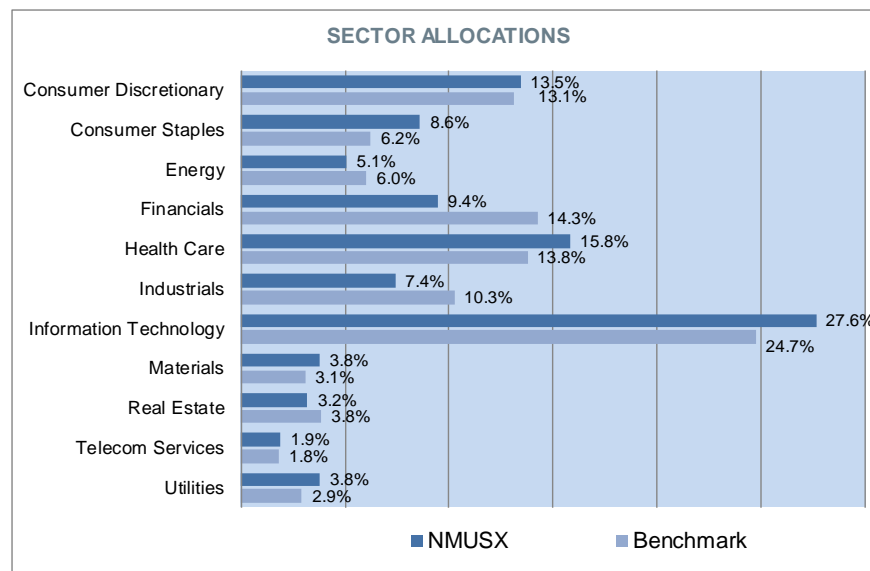
\*\*Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas

5 See page 12 for important disclosure information

Economic Sectors	NMUSX	Benchmark
Consumer Discretionary	13.5%	13.1%
Consumer Staples	8.6%	6.2%
Energy	5.1%	6.0%
Financials	9.4%	14.3%
Health Care	15.8%	13.8%
Industrials	7.4%	10.3%
Information Technology	27.6%	24.7%
Materials	3.8%	3.1%
Real Estate	3.2%	3.8%
Telecom Services	1.9%	1.8%
Utilities	3.8%	2.9%
<b>Total*</b>	<b>100.0%</b>	<b>100.0%</b>



NORTHERN FUNDS

# Sub-Adviser 2Q 2018 Review

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# ACTIVE M U.S. EQUITY FUND (NMUSX)

## Sub-Adviser Allocation and Portfolio Characteristics

2Q I 2018

### SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
Thompson, Siegel & Walmsley	25%	A mid cap, relative value plus catalyst investment philosophy. Focused on upside potential and downside risk.
Delaware Investments Fund Advisers	25%	Concentrated, traditional value approach that can be contrarian at times. Seeks to preserve capital in difficult markets.
Polen Capital Management, LLC	20%	Highly concentrated large cap core growth portfolio.
Granite Investment Partners, LLC	10%	Diversified small cap core strategy with exposure to growth and value names.
Lazard Asset Management LLC	20%	An all cap, concentrated strategy focused on value creation through bottom up stock selection, combining valuation and financial productivity.

### PORTFOLIO CHARACTERISTICS

	TS&W	Russell Mid Value Index	Delaware	Russell 1000 Value Index	Polen Capital	Russell 1000 Growth Index	Granite	Russell 2000 Index	Lazard	Russell 3000 Index	NMUSX	Russell 3000 Index
Wtd Avg Market Cap	\$12 Billion	\$14.2 Billion	\$89.6 Billion	\$116 Billion	\$234 Billion	\$262.8 Billion	\$1.7 Billion	\$2.3 Billion	\$95.3 Billion	\$174.2 Billion	\$92.9 Billion	\$174.2 Billion
% EPS Growth - Past 5 yrs.	2.74%	3.48%	1.26%	3.40%	10.13%	13.42%	9.56%	7.07%	1.45%	8.28%	4.36%	8.28%
Positive Trailing P/E	13.7x	17.5x	17.2x	16.6x	38.8x	29.6x	22.4x	19.4x	27.x	21.3x	20.4x	21.3x
Price to Book	1.29	1.87	2.32	1.84	7.06	6.25	2.66	2.03	3.09	2.75	2.33	2.75
Number of Holdings**	66	596	33	729	20	542	60	2019	20	3007	194	3007

\*Actual allocations may vary.

\*\*Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas

7 See page 12 for important disclosure information



# ACTIVE M U.S. EQUITY FUND (NMUSX)

## Sub-Adviser Quarterly Commentary

2Q | 2018

### Thompson, Siegel & Walmsley (“TSW”)

- The TSW midcap value portfolio outperformed its benchmark, the Russell Midcap<sup>®</sup> Value Index, during the quarter. Strong stock selection in consumer discretionary and industrials buoyed overall performance. Conversely, the major detractors were health care and energy where overweights and poor stock selection in both sectors pulled back relative results.
- TSW believes that the economy appears to be in good health, with no major indications of recession on the immediate horizon. The market continues to trade at a very expensive multiple, which is even further pronounced when comparing growth against value style. In fact, the relative valuation of the Russell Mid Cap Growth index compared to the Russell Mid Cap Value index now trades well north of 2 standard deviations above the historic 10-yr average indicating a significant disconnect in relative valuation.

### Delaware Investments

- For the second quarter, Delaware's large cap value equity portfolio outpaced its benchmark, the Russell 1000<sup>®</sup> Value Index. Both sector allocations and stock selection contributed to the quarter's results. Investments in the financials and energy sectors contributed most to relative performance. Stock selection benefitted returns in both sectors and an overweight to energy and underweight to financials aided relative performance. Investments in the industrials, health care and consumer discretionary sectors caused the largest drags on returns. Defense stocks were generally weak during the quarter as according to the manager, investors appeared to take profits following an extended period of strong performance.
- Looking at last year's strong market gains and this year's more volatile and modest return environment, the manager believes that the benefits of tax reform have been largely discounted by the market. They note that a by-product of strong earnings and muted returns has been a decline in valuations. Nonetheless, valuations remain stretched, in their view. Portfolio positioning has not changed much as Delaware continued to opt for defensiveness and lower cyclicity, emphasizing higher quality and attractive relative value across the portfolio.

### Polen Capital Management

- Polen Capital's large cap growth portfolio outperformed its benchmark, the Russell 1000<sup>®</sup> Growth, during the second quarter of 2018. On an absolute basis, the information technology and health care sectors were the leading contributors to the portfolio's returns during the second quarter. Stock selection in the information technology sector was the largest contributor to relative performance. Stock selection in the health care sector and the underweight in the industrials sector were also contributors to relative performance, while stock selection in the consumer discretionary sector was the largest detractor from performance during the quarter.
- Polen estimates that the portfolio's Earnings Per Share (EPS) growth has been trending in the mid-20% range on a trailing twelve-month basis, thus continuing to underpin the strong returns the firm has achieved year to date. Additionally, this level of EPS growth exceeds the S&P 500's operating EPS growth of 19% for the same period, as estimated by Standard & Poor's. For 2018, S&P 500 operating EPS growth is currently estimated at 27%, which they believe is partly aided by the recently enacted U.S. tax reform.





# ACTIVE M U.S. EQUITY FUND (NMUSX)

*Sub-Adviser Quarterly Commentary*

2Q I 2018

## Granite Partners

- Granite small cap core portfolio outperformed its benchmark, the Russell 2000® Index, during the second quarter of 2018 mainly due to strong stock selection. Positive stock selection in information technology, health care and materials contributed to the portfolio's performance while negative selections in consumer discretionary, telecom services and consumer staples was a drag on results. An underweight to financials benefitted performance while a modest underweight to the stronger performing energy sector detracted from performance.
- As they look out into 2019, Granite believes that the negative impacts of rising deficits from reduced tax receipts during a period of low sustained unemployment may become more visible. The manager believes that ultimately, monetary and fiscal policy are contradictory, and the medium term impact is less apparent today. The stronger dollar and the risk of a trade war have seen spreads tighten over the course of the second quarter. To date, the market has been resilient in the face of this potential trade war.

## Lazard Asset Management

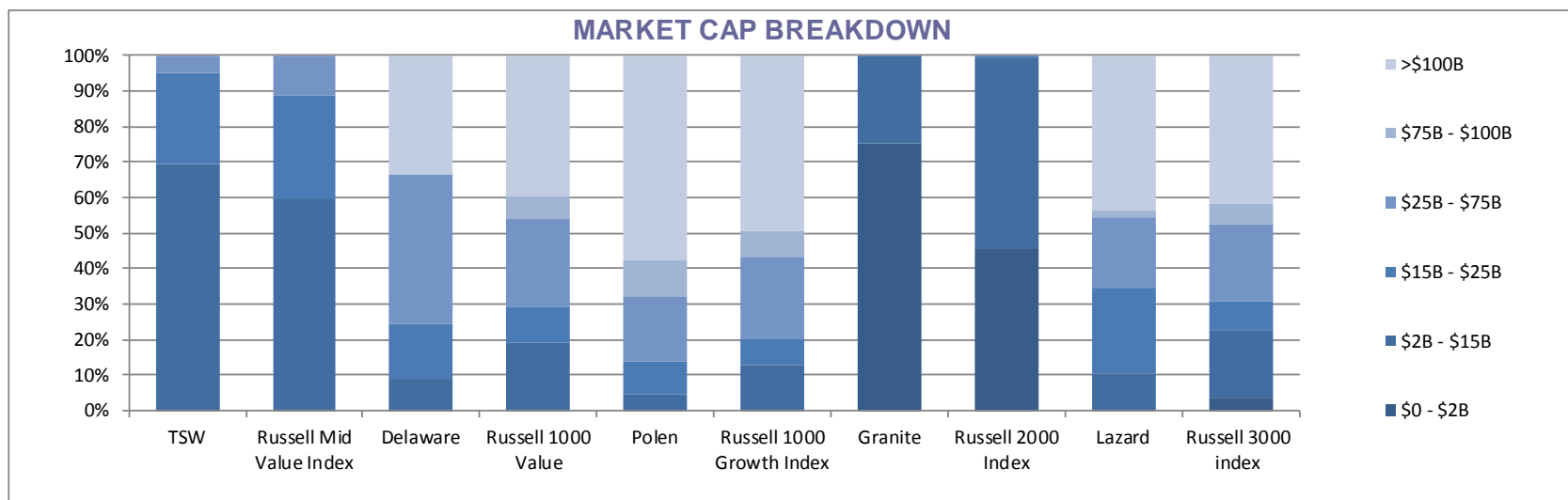
- Lazard's all cap concentrated core portfolio underperformed its benchmark, the Russell 3000® Index, during the second quarter of 2018. Poor stock selections in informational technology and telecom services detracted from the portfolio's relative performance. Conversely, elections in industrials and health care and no exposure to the weaker performing financials sector added positively to the portfolio's overall return.
- Lazard remains cautiously optimistic regarding the U.S. economy and markets in spite of the firm's increased concerns regarding trade policy and global geopolitical risk. The core underpinning of their optimism is the overall expectation that sustained labor market strength will take unemployment rates to multi-decade lows and drive household incomes higher. Lazard believes that recent equity market volatility and the improved outlook have helped bring valuations back to more attractive levels.



# ACTIVE M U.S. EQUITY FUND (NMUSX)

## Sub-Adviser Market Capitalization & Sector Allocations

2Q | 2018



### SECTOR ALLOCATIONS

	TS&W	Russell Mid Value Index	Delaware	Russell 1000 Value Index	Polen Capital	Russell 1000 Growth Index	Granite	Russell 2000 Index	Lazard	Russell 3000 Index	NMUSX	Russell 3000 Index
Consumer Discretionary	14.9%	11.6%	6.2%	8.3%	21.9%	17.9%	12.6%	13.4%	12.2%	13.1%	13.5%	13.1%
Consumer Staples	10.2%	5.1%	6.2%	7.3%	3.2%	5.7%	4.7%	2.8%	18.0%	6.2%	8.6%	6.2%
Energy	4.6%	7.7%	12.8%	11.1%	0.0%	1.0%	4.5%	5.0%	1.2%	6.0%	5.1%	6.0%
Financials	19.1%	18.1%	15.0%	23.3%	0.0%	4.4%	9.2%	17.9%	0.0%	14.3%	9.4%	14.3%
Health Care	11.7%	6.4%	24.6%	13.9%	13.4%	13.4%	16.8%	15.6%	11.6%	13.8%	15.8%	13.8%
Industrials	7.7%	11.8%	8.3%	7.9%	0.0%	11.9%	22.4%	14.9%	5.7%	10.3%	7.4%	10.3%
Information Technology	8.4%	8.9%	11.7%	9.9%	61.5%	41.6%	16.3%	14.9%	42.8%	24.7%	27.6%	24.7%
Materials	3.7%	6.4%	3.0%	4.1%	0.0%	1.8%	4.7%	4.3%	8.6%	3.1%	3.8%	3.1%
Real Estate	7.9%	13.4%	3.1%	4.9%	0.0%	2.2%	4.4%	7.3%	0.0%	3.8%	3.2%	3.8%
Telecom Services	0.0%	0.6%	6.2%	3.6%	0.0%	0.2%	2.9%	0.7%	0.0%	1.8%	1.9%	1.8%
Utilities	11.7%	10.0%	3.1%	5.7%	0.0%	0.0%	1.5%	3.3%	0.0%	2.9%	3.8%	2.9%
Total*	100.0%	100.0%	100.0%	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



NORTHERN FUNDS

# Appendix

Disclosure of additional information

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# 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. Sub-adviser returns are represented gross of Fund expenses. 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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