



## Multi-Manager Mid Cap Fund (NMMCX)

1Q 2016 Performance Review

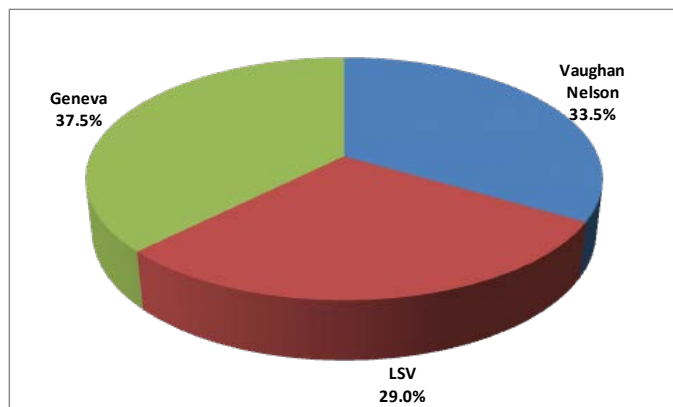
*Please carefully read the prospectus and summary prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds before investing. Call **800-595-9111** to obtain a prospectus and summary prospectus, which contains this and other information about the funds.*

# Multi-Manager Mid Cap Fund (NMMCX)

## Fund Facts

**Fund Objective:** Capital Appreciation  
**Inception Date:** June 22, 2006  
**Ticker Symbol:** NMMCX  
**Benchmark:** Russell Midcap® 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 Midcap Index.
- The Fund currently uses three sub-advisers with various investment approaches.
- Style characteristics are designed to be neutral to the 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.

**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.

---

**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 MidCap<sup>®</sup> Index:** is an unmanaged index measuring the performance of the 800 smallest companies in the Russell 1000<sup>®</sup> Index. It is not possible to invest directly in an index.

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

**Russell MidCap<sup>®</sup> 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.

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

#### QUARTERLY COMMENTARY

- During the quarter, the Multi-Manager Mid Cap Fund returned 0.38%, compared with the Russell Midcap Index return of 2.24%. Sector positioning detracted from results during the quarter. The Fund was significantly underweight the utilities sector, which was the top-performing segment during the quarter. In addition, overweights to health care and technology subtracted from returns.
- Among the sub-advisers, the quantitative strategist LSV was the strongest performer, while the value manager Vaughan Nelson lagged. In the case of Vaughan Nelson, its positioning in the materials sector negatively impacted results, as did a lack of exposure to the utilities sector.

#### 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 Mid Cap Fund - Inception 6/22/06</b>	0.38	0.38	-7.97	6.97	7.28	6.73	-4.80	6.92	35.40	14.42	-2.99
Russell Midcap	2.24	2.24	-4.04	10.45	10.30	8.17	-2.44	13.22	34.76	17.28	-1.55
<i>Excess Return</i>	-1.86	-1.86	-3.93	-3.48	-3.02	-1.44	-2.36	-6.30	0.63	-2.86	-1.44
<i>Annual Expense Ratio: Gross, 1.05%; Net, 1.00%</i> <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. 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 Midcap Index.



# Multi-Manager Mid Cap Fund (NMMCX)

## Fund Characteristics

1Q | 2016

### FUND FACTS

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

### 5 LARGEST HOLDINGS

Company	Benchmark
Fiserv Inc	1.5%
Broadridge Finl Solutio	1.3%
O Reilly Automotive Inc	1.2%
Tractor Supply Co	1.2%
Jarden Corp	1.1%
<b>Total*</b>	<b>6.3%</b>

### FUND CHARACTERISTICS

	NMMCX	Benchmark
Wtd Avg Market Cap	\$10 Billion	\$12.6 Billion
% EPS Growth - Past 5 yrs.	12.18%	8.68%
Positive Trailing P/E	17.8x	20.9x
Price to Book	2.17	2.30
Number of Holdings**	231	822

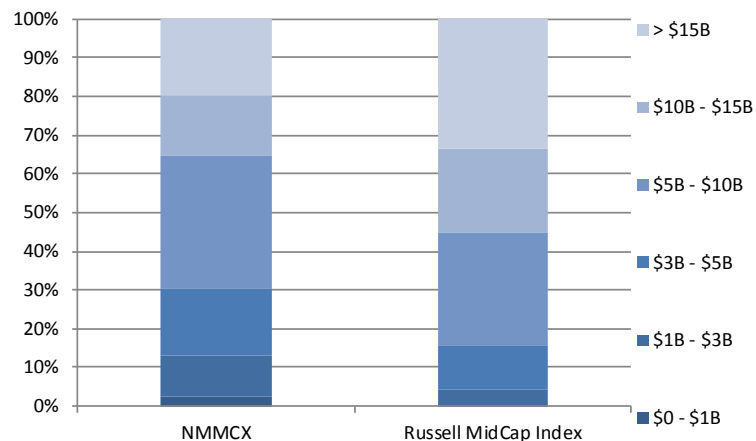
\*The "Total" column may not sum exactly due to rounding.

\*\*Currency positions are excluded.

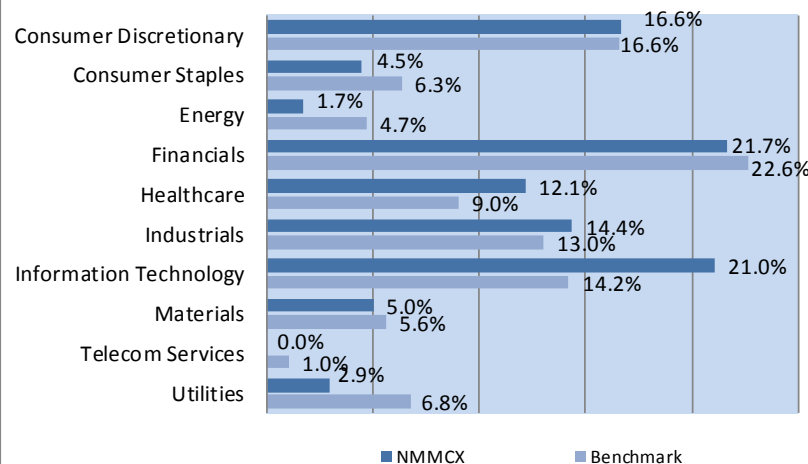
Portfolio composition may change at any time.

Source: Wilshire Atlas

### MARKET CAP BREAKDOWN



### SECTOR ALLOCATIONS



**NORTHERN**  
FUNDS



## Sub-Adviser 1Q 2016 Review

### SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
Geneva Capital Management Ltd.	37.5%	Conservative growth approach. Offers growth characteristics, with a valuation overlay.
LSV Asset Management	29%	Deep value style with quantitative approach. Systematically exploits judgmental biases and behavior weaknesses influencing investors.
Vaughan Nelson Investment Management	33.5%	Relative value approach. Seeks to invest in companies at valuations materially below their long-term intrinsic value.

	Geneva	Russell Midcap Growth Index	LSV	Russell Midcap Value Index	Vaughan Nelson	Russell Midcap Value Index	NMMCX	Russell Midcap Index
Wtd Avg Market Cap	\$11.7 Billion	\$13.5 Billion	\$9.9 Billion	\$11.7 Billion	\$8.1 Billion	\$11.7 Billion	\$10 Billion	\$12.6 Billion
% EPS Growth - Past 5 yrs	13.15%	12.84%	10.03%	4.59%	13.19%	4.59%	12.18%	8.68%
Positive Trailing P/E	29.3x	22.7x	13.1x	19.2x	15.2x	19.2x	17.8x	20.9x
Price to Book	4.31	4.45	1.35	1.60	2.15	1.60	2.17	2.30
Number of Holdings**	54	499	125	555	61	555	231	822

\*Actual allocations may vary.

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

Portfolio composition may change at any time.

Source: Wilshire Atlas



### GENEVA CAPITAL MANAGEMENT

- The Henderson Geneva US Mid Cap Growth strategy underperformed the benchmark during a volatile first quarter. The largest contributor to underperformance was in the financials sector, where the manager's stock selection was weak. Strong stock selection in health care and consumer discretionary acted as a buoy for relative results, but not enough to offset performance in other areas.
- Performance relative to the benchmark was difficult due to the fact that much of this strength came from dividend payers and companies with cyclical exposure. The factor attribution for the Russell Midcap Growth benchmark supports the notion of a low quality market as evidenced by the underperformance of companies with a low debt-to-cap, high growth rates and high P/E ratios. Conversely, the second half of the quarter was a "risk-on" market; high yield spreads narrowed by 220bps during February and March as investors repositioned towards risk. In light of these somewhat contradictory trends, the data support the trend toward high quality companies and should provide a tailwind looking out to the remainder of the year as the Fed may prove to be less dovish in an improving economy.
- The remainder of 2016 should continue the patterns from the first quarter; volatility is here to stay and the global economy will be stuck in a slow growth environment. Volatility will continue to manifest itself with the 24 hour news coverage of the US presidential election, Fed action/inaction, a vote on a possible Brexit in June and worries over global growth. Fed policy will be prominent in the minds of investors as Chairwoman Yellen digests conflicting economic data and works to condition the market for normalization. Given the current backdrop, this slow, low growth environment should continue for the foreseeable future and the Fed may have an opportunity to raise rates later in the year. Counteracting the strength in the US economy is the strong US dollar, which is partly the result of actions by the ECB and BOJ, and its impact on corporate spending and exporters here in the US.

### LSV

- LSV Asset Management lagged the Russell Mid Cap Value Index in the first quarter 2016. While the manager's selection added value in several sectors including industrials, information technology, and REITs, this was offset by poor selection among energy stocks. The manager's holdings in the refining industry gave back some of their gains from last year as oil prices recovered somewhat in the second half of the quarter. Sector positioning had a negative impact on results. An underweight to utilities, the best performing sector in the benchmark, accounted for part of the underperformance.
- Even though mid cap stocks are trading at valuations above the historic averages, value stocks and particularly the LSV portfolio remain attractive on multiple valuation measures. The portfolio is trading at 11.7x forward earnings compared to 18.4x for the value benchmark, 1.5x book compared to 1.7x book for the benchmark and 7.5x cash flow compared to 11.4x for the Russell Midcap Value Index. The portfolio is also yielding 3.0%. While LSV's deep value approach has not been in favor over the last several years, the manager continues to find stocks that are attractive on a price to cash flow, price to earnings, and price to book basis. The manager will continue overweight those sectors and industries where it finds the most attractive stocks.



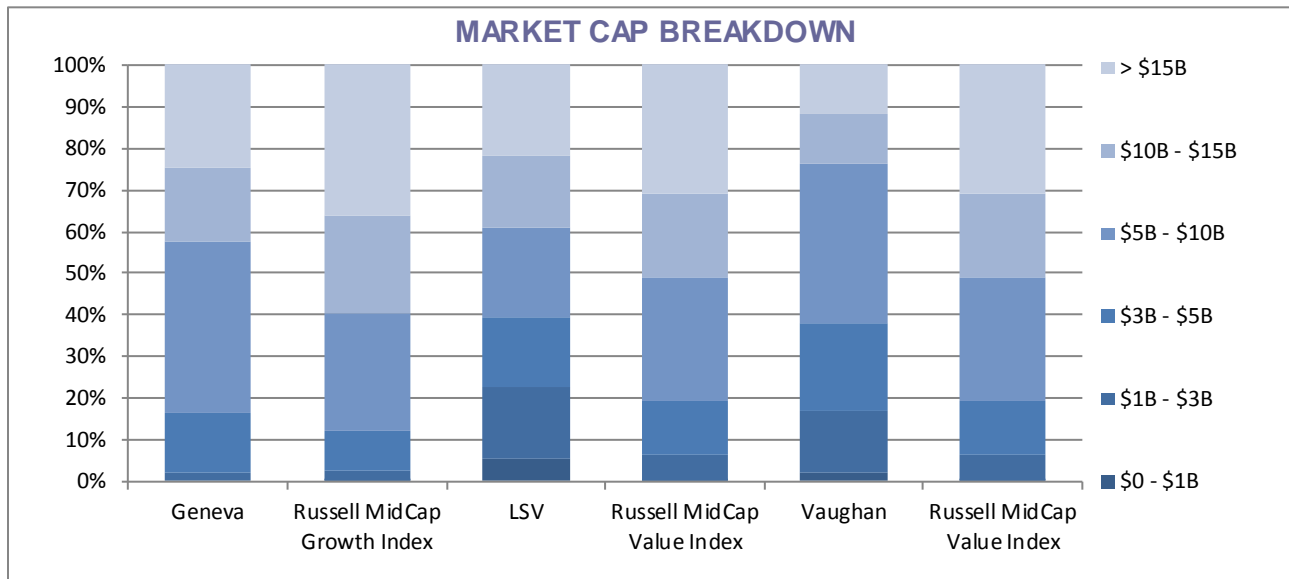
#### Vaughan Nelson Investment Management

- During the quarter, the Vaughan Nelson Value Opportunity fund lagged the Russell Mid Cap Value and benchmark due to weak stock and sector selection. The worst performing sectors on a relative basis were industrials, materials, utilities, and consumer discretionary, while financials contributed to performance. Utilities performed especially well during the quarter which detracted from relative performance since the portfolio is materially underweight utilities. The portfolio is overweight technology, materials, health care, and consumer discretionary while underweight REITs, utilities, energy, industrials, and consumer staples.
- After the volatility of the last six to eight months, the relative valuations across equity markets are balanced but are not necessarily more attractive. With markets virtually unchanged since year end, but 2016 earnings expectations actually declining, equity valuations have increased. The primary driver of the equity market recovery from the initial decline in the first quarter of 2016 was a loosening of monetary conditions caused by declining credit spreads and a falling U.S. dollar. In order for equity markets to maintain current levels and ultimately move higher, the manager will need to see economic fundamentals and earnings expectations begin to rise in line with the improving monetary conditions.
- The manager believes there are reasons to be optimistic regarding an improvement in economic fundamentals and earnings expectations in the back half of 2016. Employment growth and real wage gains continue to be supportive of further economic improvement. The biggest headwind to economic activity is the destocking of inventories across the global economy. Should inventories become balanced with final demand and should oil prices increase further in 2016, the equity market will discount accelerating real economic growth and a modest increase in inflationary pressures, which should lead to rising equity markets. Vaughn Nelson's outlook has become more balanced, stock-specific, and not reflective of opportunities in specific industries, regions of the world, or broader market indices.

# Multi-Manager Mid Cap Fund (NMMCX)

## Sub-Adviser Market Capitalization & Sector Allocations

1Q | 2016



### SECTOR ALLOCATIONS

	Geneva	Russell Midcap Growth Index	LSV	Russell Midcap Value Index	Vaughan Nelson	Russell Midcap Value Index	NMMCX	Russell Midcap Index
Consumer Discretionary	18.6%	25.1%	12.0%	8.4%	18.5%	8.4%	16.6%	16.6%
Consumer Staples	6.1%	8.3%	2.4%	4.4%	4.4%	4.4%	4.5%	6.3%
Energy	0.0%	0.9%	5.2%	8.5%	0.6%	8.5%	1.7%	4.7%
Financials	9.2%	12.2%	33.7%	32.9%	25.0%	32.9%	21.7%	22.6%
Healthcare	17.7%	12.5%	4.7%	5.6%	12.5%	5.6%	12.1%	9.0%
Industrials	20.5%	16.4%	12.4%	9.7%	9.2%	9.7%	14.4%	13.0%
Information Technology	27.9%	19.0%	12.8%	9.5%	20.6%	9.5%	21.0%	14.2%
Materials	0.0%	5.1%	6.7%	6.1%	9.1%	6.1%	5.0%	5.6%
Telecom Services	0.0%	0.4%	0.0%	1.7%	0.0%	1.7%	0.0%	1.0%
Utilities	0.0%	0.1%	10.0%	13.2%	0.0%	13.2%	2.9%	6.8%
Total*	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.
- This presentation is provided for informational purposes only and does not constitute an offer or solicitation to purchase or sell any funds. Information should not be considered investment advice, a recommendation to buy or sell any security or an endorsement of any underlying sub-advisers' investment strategies. There is no assurance that the securities discussed are still in the Funds' portfolio or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions or holdings discussed was or will be profitable, or that the investment decisions made in the future will be profitable or will equal the investment performance of the securities discussed herein.
- 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.
- Opinions expressed are those of the authors or individual investment managers and may not reflect the opinions of Northern Trust Corporation or its subsidiaries. Information is subject to change without notice. All indexes are the exclusive property of their respective owners, all rights reserved.
- Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company. Northern Trust Asset Management offers investment products and services to personal and institutional markets.
- Shares of Northern Funds are distributed by Northern Funds Distributors, LLC, not affiliated with Northern Trust.

Not FDIC Insured | May lose value | No bank guarantee

**NORTHERN**  
FUNDS