

NORTHERN FUNDS

BOND INDEX FUND (NOBOX)

As of 03/31/18

FUND COMMENTARY

The first quarter started with risk markets continuing their rally due to optimism over the economy and corporate earnings. However, toward the end of January risk assets started to sell off due to concerns about rising interest rates and fears of higher inflation. Volatility picked up dramatically in February as the equity markets moved down. Investment grade spreads widen throughout the quarter, driven by a poor market tone and technical environment. The market continued to sell off due to fears that planned U.S. tariffs may start a trade war. At the March meeting, the Federal Reserve (Fed), led by new Chairman Jerome Powell, raised the fed funds rate 0.25% and projected two more increases this year.

The U.S. Treasury yield curve flattened during the first quarter, with the two-year to 10-year spread flattening by 5 basis points (0.05%) and the 10-year to 30-year spread flattening by 10 basis points (0.10%). The yield on the two-year note increased by 38 basis points (0.38%), while the 10-year increased by 33 basis points (0.33%) and the yield on the 30-year bond increased by 23 basis points (0.23%) during the quarter. On a duration adjusted basis, the Bloomberg Barclays U.S. Aggregate Bond Index return of -1.46% underperformed U.S. Treasury securities for the first quarter. The credit sector was the worst-performing sector for the quarter followed by the mortgage-backed securities sector.

The Fund's return of -1.52% closely tracked the returns of the Bloomberg Barclays U.S. Aggregate Bond Index for the first quarter. We will continue to invest in a sample of securities that are representative of the Index in an effort to provide returns that closely approximate those of the Index.

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

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Performance as of 03/31/18				Annualized Returns				Gross Expense Ratio	Net Expense Ratio
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception		
Bond Index Fund	-1.52%	-1.52%	1.13%	1.05%	1.67%	3.37%	3.74%	0.17%	0.15%
Bloomberg Barclays US Aggregate Bond Index	-1.46%	-1.46%	1.20%	1.20%	1.82%	3.63%	3.94%		

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 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 on July 31, 2018.

Not FDIC insured | May lose value | No bank guarantee

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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