

NORTHERN FUNDS

SMALL CAP CORE FUND (NSGRX)

As of 03/31/18

FUND COMMENTARY

A return of volatility to the market dented, but did not reverse, the continued performance patterns in the small-cap market: growth significantly outperformed value; higher volatility beat lower and low quality (as defined by our proprietary quality model) again dominated returns in the first quarter. Although we saw a short reversal of these trends in the March, when concerns about trade policy and the ability of the largest tech companies to continue to defy market gravity, in general, the market rewarded higher growth and higher risk this quarter.

The Small Cap Core Fund returned -0.39%, trailing the benchmark, Russell 2000® Index, which had a return of -0.08%. Stock selection was positive within energy and industrials, only partially offsetting weaker stock picks in technology and flatter results within a number of other sectors. Results in technology reflected the strong outperformance of low-quality stocks (as rated by our proprietary quality stock selection model) which accounted for the majority of this quarter's underperformances. More successful were the Fund's holdings of smaller capitalization stocks, which outperformed the broader small-cap market. Valuation differences were also a meaningful contributor to returns, as the highest quintile basket of price-to-earnings outperformed. However, the biggest impact for Fund performance was the outperformance of the non-earners, and the Fund's underweight to this group contributed negatively to excess returns. Similarly, stocks of companies with deeply negative or missing return on equity (ROE) values were the best performing this last quarter, and underweighted in the Fund because of the strategy's bias to more profitable companies.

Going forward, we will continue to seek to provide diverse exposure to domestic small-cap stocks, including those within the smallest segments of the market, avoid stocks of companies with low-quality characteristics and maintain a disciplined process to manage active risk and transaction cost.

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		
Small Cap Core Fund	-0.39%	-0.39%	10.66%	7.49%	11.35%	9.82%	7.60%	0.74%	0.65%
Russell 2000 Index	-0.08%	-0.08%	11.79%	8.39%	11.47%	9.84%	8.57%		

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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