

# NORTHERN FUNDS

## U.S. QUALITY ESG FUND (NUESX)

As of 12/31/18

### FUND COMMENTARY

“Markets take the stairs up and the elevator down”, as the old maxim goes. The fourth quarter provided a textbook example of this, as the S&P 500 Index reversed course and sank a remarkable -13.5%, leading to the first negative yearly return in a decade. Investors succumbed to fears over the ongoing global trade war, the path of interest rates and the staying power of the current economic cycle.

On the trade war front, despite initial positive reports coming out of the G-20 Summit, many questioned whether real progress could be made prior to the new March 1st deadline, as details henceforth have been sparse. The Federal Reserve raised interest rates by a quarter point in December, their fourth of the year, while lowering 2019's expected number of increases to two. While the decrease in expected hikes and the updated language surrounding the proximity to the neutral rate were viewed as dovish, public comments made after the meeting were taken negatively by market participants, sending markets down sharply for the month. Investors sought shelter in more defensive sectors, with utilities and real estate leading relative to other sectors. Energy led the decliners, following the collapse of crude oil prices during the period. From a factor perspective, defensively positioned low volatility and low beta factors outperformed.

Amidst a tumultuous December, climate talks took place at the 24th Conference of Parties (COP) in Katowice, Poland. The conference focused on the technical details of measurement, verification, and reporting of how to put the 2015 Paris agreement, or “rulebook,” into practice between member countries. Negotiations went on for four weeks, and while progress was made, many of the critical articles went unresolved and were put off until the next COP in Chile. Thankfully, the fate of the climate is not solely left to governments to decide. Powered by better economics and corporate social responsibility objectives, corporations drove a record 9.4GW of clean energy agreements in 2018, which is enough to power 5% of all U.S. households. With 159 companies (and growing) committed to 100% renewable energy as part of the RE100 organization, the impact of private industry to the future state of the climate is vital.

The U.S. Quality ESG Fund posted a fourth quarter return of -14.66%, down 84 basis points (0.84%) relative to the -13.82% return of the Russell 1000 Index. The bottom quintile of quality sold off during the quarter, as investors sought out the most defensively positioned companies. Mid-tier quality outperformed on a relative basis, thus our overweight to the top quintile of quality was a slight detractor. Higher rated ESG companies outperformed during the period, thus our overweight was slightly additive to performance. For the year, the Fund performed in-line with the Russell 1000 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 12/31/18				Annualized Returns					
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross Expense Ratio	Net Expense Ratio
U.S. Quality ESG Fund	-14.66%	-4.82%	-4.82%	N/A	N/A	N/A	0.58%	2.08%	0.43%
Russell 1000 Index	-13.82%	-4.78%	-4.78%	N/A	N/A	N/A	0.86%		

\*Inception Date- 10/02/17

**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, 2019.

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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