

NORTHERN FUNDS

ULTRA-SHORT FIXED INCOME (NUSFX)

As of 03/31/18

FUND COMMENTARY

The Federal Reserve (Fed) increased the fed funds rate 25 basis points (0.25%) in March and continued its balance sheet reduction. The interest rate increase marked continued progress in the Fed's path to monetary policy normalization. The market had fully priced in the rate hike as a result market movements following the hike were limited.

Rates and credit spreads both rose sharply during the first quarter. The repricing of the front end of the Treasury curve continued in the first quarter. Treasury yields for one-, two- and three-year rates increased by 35, 38 and 41 basis points (0.35%, 0.38% and 0.41%) for the period. The one to three-year option-adjusted spread (OAS) widened 20 basis points (0.20%) as U.S. companies reduced investment grade holdings in their offshore portfolios in response to the new tax law. In the cash space, the LIBOR Overnight Index Swap (OIS) spread reached highs not seen since the financial crisis. Importantly, this time the spread widening is not due to worries about bank credit fundamentals. The spread widening was a result of a steep increase in Treasury supply combined with the repatriation of corporate cash, both of which led to banks having to pay more to obtain funding.

The Fund returned 0.03% for the quarter, while the ICE BofAML 1-Year U.S. Treasury Note Index returned 0.25%. Both the spread widening and the move higher in rates hurt performance in the first quarter. The Fund was positioned short duration versus the benchmark to reduce the effect of higher rates. The benchmark however does not have any credit exposure and thus only the Fund was adversely affected by the spread widening.

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		
Ultra-Short Fixed Income	0.03%	0.03%	0.96%	1.03%	0.93%	-	1.27%	0.27%	0.26%
ICE BofAML 1-Year U.S. Treasury Note Index	0.25%	0.25%	0.66%	0.54%	0.42%	-	0.49%		

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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