

NORTHERN INSTITUTIONAL FUNDS

U.S. GOVERNMENT SELECT PORTFOLIO (BGSXX)

As of 12/31/18

FUND COMMENTARY

Global markets were very volatile during the quarter with risk assets and bond yields sharply lower to end 2018. Despite this volatility the Federal Open Market Committee (FOMC) pressed ahead with its well telegraphed quarterly cadence for rate hikes, increasing the federal funds target range for the fourth time this year to 2.25% — 2.50% while making a further adjustment to the rate paid on excess reserves (IOER), only increasing it by 0.20% to 2.40%. The yield curve continued to flatten meaningfully and the risk-off tone in markets prompted a significant repricing of expectations for future hikes. The market priced out more than two full hikes during the quarter and now expects zero hikes in 2019, in contrast to the FOMC's projections for two hikes. We'll continue to monitor market pricing closely and selectively add high quality credits and duration to remain long to our peer group, while maintaining a strong liquidity profile to accommodate any unexpected outflows.

The money market yield curve was not immune to the flattening trend observed in broader fixed income markets, with a modest uptick in Treasury bill (T-bill) supply early in the quarter keeping T-bill and Repo rates around or above IOER while 12 month T-bills rallied sharply. Treasuries maturing in one year even traded at yields higher than 2-, 3-, and 5-year Treasuries at multiple points during the period as different segments of the yield curve inverted. To date, the introduction of the 2-month T-bill has been well received by the market.

[View investment terms definitions](#)

Not FDIC insured | May lose value | No bank guarantee

You could lose money by investing in the Portfolio. All purchase and sale activity is being transacted at the Amortized Cost NAV of \$1.00. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Portfolio's sponsor has no legal obligation to provide financial support to the Portfolio, and you should not expect that the sponsor will provide financial support to the Portfolio at any time.

Please carefully read the summary prospectus or prospectus and consider the investment objectives, risks, charges and expenses of Northern Institutional Funds before investing. Call 800-637-1380 to obtain a summary prospectus or prospectus, which contains this and other information about the Funds.

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