

# NORTHERN INSTITUTIONAL FUNDS

## MUNICIPAL PORTFOLIO (NMUXX)

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 short duration municipal market was likewise buffeted by the volatility experienced by the broader fixed income markets during the quarter. As we moved through the quarter, the municipal short duration curve flattened along with the Treasury curve. In the municipal market, demand for short fixed rate municipal notes strengthened, while daily and weekly variable rate demand notes (VRDNs) were sold by investors to meet cash needs. Growing inventories of VRDNs ultimately prompted dealers to reset daily and weekly rates higher into year end. The result was that by the end of the quarter, the two ends of the one-year municipal yield curve had effectively converged. The relatively flatter yield curve prompted managers to invest new cash balances in daily and weekly VRDNs. These par securities work to anchor to the portfolio's net asset value

Not FDIC insured | May lose value | No bank guarantee

*You could lose money by investing in the Portfolio. Because the share price of the Portfolio will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Portfolio may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Portfolio's liquidity falls below required minimums because of market conditions or other factors. 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.**

©2018 Northern Institutional Funds | Northern Institutional Funds are distributed by Northern Funds Distributors, LLC, not affiliated with Northern Trust.



## NORTHERN INSTITUTIONAL FUNDS MUNICIPAL PORTFOLIO (NMUXX)

and provided a strong liquidity dynamic, as the municipal VRDN offers investors the option to tender at “par” within five business days.

[View investment terms definitions](#)

Not FDIC insured | May lose value | No bank guarantee

*You could lose money by investing in the Portfolio. Because the share price of the Portfolio will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Portfolio may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Portfolio's liquidity falls below required minimums because of market conditions or other factors. 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.**

©2018 Northern Institutional Funds | Northern Institutional Funds are distributed by Northern Funds Distributors, LLC, not affiliated with Northern Trust.

