

INVESTORS REALIZE BIG OPPORTUNITIES FROM SMALL COMPANIES

**SMALL CAP VALUE STOCKS WERE
AMONG 2016'S TOP PERFORMERS**

Investors in small cap value stocks enjoyed robust returns in 2016, underscoring the securities' importance in well-rounded investment portfolios. Bob Bergson, manager of the Northern Small Cap Value Fund (NOSGX) for more than 14 years, explains his views on the asset class, his approach to managing small cap value stocks, and why he believes these stocks offer excellent performance potential for long-term investors.

For many investors, small cap value stocks represent some of the best opportunities in the equity markets. Because they are small (generally with market capitalizations of \$3 billion or less), they have much more room to grow than their larger counterparts; and because they fall into the "value" category, they typically sell for less than their book value and therefore may offer more upside potential than their "growth" brethren.

The Northern Small Cap Value Fund seeks to capture the opportunities of the asset class by investing in the stocks of small companies Bergson believes are high quality (as measured by such factors as earnings quality and balance sheet strength) and worth more than their current market prices suggest. Because small cap stocks tend to be riskier than larger, more-seasoned companies, the

fund is intended for equity investors with a long-term perspective and an above-average tolerance for volatility.*

RISK MANAGEMENT IS KEY TO STRATEGY

In striving for consistent results over time, Bergson emphasizes effective risk management. "We focus on taking steps to reduce or eliminate the risks for which we are not compensated," said Bergson. For example, the fund doesn't make sector, style, or capitalization "bets." Instead, Bergson maintains exposure to all benchmark sectors and remains firmly planted in the small cap value universe.

"We don't take as much risk, relative to the benchmark, as many of our peers do," said Bergson. "We focus on areas where we have the most confidence, and accordingly, our 'bets' align with our research into valuation and quality," he continued. "Relative to our peers, we don't take a lot of risk, yet we generate competitive excess returns."

In particular, Bergson avoids stocks with prices that appear to be "too good or too bad to be true," he said. "Avoiding companies that are less likely to perform is critical in a riskier market segment such as the small cap stock universe."

Bergson also seeks to limit risk by maintaining a broadly diversified portfolio. He takes small positions in 400 to 600 companies and avoids sector and industry concentration.

AN EFFICIENT, DATA-DRIVEN INVESTMENT APPROACH

Bergson and his team pursue an unbiased stock-selection process that combines quantitative research with disciplined decision making. The fund's core model focuses on identifying market mispricing, evaluating the same types of fundamental metrics as traditional qualitative investment management strategies. "However, we do so more efficiently, with breadth of coverage, speed, and lower analysis and execution costs," said Bergson.

Security prices move more quickly than their underlying fundamentals, as the market dislocates stock prices from their underlying fundamentals in response to despair and euphoria, Bergson explained. The market does this with sufficient frequency and magnitude, creating investment opportunities the fund seeks to capture. "The research and discipline we use in the Small Cap Value Fund analyze the complex trade-offs between risk, costs, and potential return," he said.

SEEKING BALANCE

The portfolio construction process is designed to balance return, risk, and transaction costs. "Our goal is to balance

** Small-capitalization funds typically carry additional risks because smaller companies generally have a higher risk of failure. Their stocks are subject to a greater degree of volatility, trade in lower volume, and may be less liquid.*

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competing elements that are important in producing consistent returns in the small cap environment, where the characteristics of high volatility and above-average transaction costs create ongoing challenges,” said Bergson.

The fund’s stock ranking system regularly identifies potential changes in the portfolio, isolating stocks that look more or less attractive based on the quantitative model’s wide range of criteria. In addition, Bergson conducts daily and monthly risk analysis on the

fund’s stocks, the small cap value style, and broad market conditions.

WHAT’S YOUR OUTLOOK FOR SMALL CAP VALUE STOCKS?

Looking ahead, investors are likely to face new challenges in 2017. A new presidential administration and potential Federal Reserve tightening are among the factors that likely will reshape the investment backdrop. Nevertheless, the fund’s strategy will remain consistent. “We’re committed to our management style in all market environments,” Bergson said. “We’re going to stay focused on our investment philosophy, buying reasonably priced, profitable small companies while avoiding those showing signs of distress.”

To learn more about the Fund and how it may fit in a diversified investment portfolio, please call **800-595-9111**, or visit **northernfunds.com**.

Equity Risk: Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed-income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes.

Small-Cap Risk: Small-capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Their stocks are subject to a greater degree of volatility, trade in lower volume and may be less liquid.

Value Risk: Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value.

Past performance is no guarantee of future results. Investing involves risk including the possible loss of principal.

SCHEDULE OF NORTHERN FUNDS 2016 TAX MATERIALS

Description	Date	Accounts
Year-end Statements	January 6	Statements will be mailed to all shareholders.
Corporate DRD Letter	January 31	Corporate shareholders who may be eligible for the dividends received deduction (DRD).
Required Minimum Distribution	January 31	A letter will be mailed to investors who have reached 70½ or who will reach 70½ in 2017 reminding them of minimum distribution requirements.
1099-DIV	January 31*	Shareholders in nonretirement accounts who received taxable distributions and exempt-interest dividends in 2016.
1099-Q	January 31*	Shareholders in 529s or Education Savings Accounts (ESAs) who redeemed or exchanged shares in 2016. **
1099-R	January 31*	Shareholders who received Individual Retirement Account (IRA) distributions in 2016.
1099-B	January 31*	Shareholders (excluding money market funds and retirement accounts) who redeemed or exchanged shares in 2016. (Includes cost basis information.)
1042-S	March 15	All nonresident alien shareholders who received dividends or capital gains distributions from a nonretirement account, or an account distribution from an IRA or employer-sponsored plan.
5498-ESA	May 1	ESA shareholders who made contributions for 2016.
5498	May 1	IRA shareholders who made contributions for 2016, including rollover contributions.

*Shareholders in the Global Real Estate Index Fund and the Multi-Manager Global Real Estate Fund will not receive tax information for those funds until February, as Real Estate Investment Trusts (REITs) often don’t provide complete tax information until after the calendar year-end.

**Northern Funds does not offer 529s.

If a date falls on a nonbusiness day or holiday, the Internal Revenue Service (IRS) due date is the next business day.

Note: Northern Funds does not provide tax reporting for: corporate accounts (other than S corporations), institutional accounts and Northern Trust trust accounts.

NORTHERN TRUST TO REPORT IRA FAIR MARKET VALUES

According to Internal Revenue Service (IRS) regulations, financial organizations must report the year-end fair market value of the retirement accounts of individuals with required minimum distributions (RMDs).

If you had an RMD in 2016, we included the fair market value of your Northern Funds IRA as of December 31, 2016, on your December 2016 year-end statement. We will report this figure to the IRS via Form 5498. If you have any questions, please call the Northern Funds Center at **800-595-9111**.

contact us

by phone call 800-595-9111, Monday thru Friday, 7:00 a.m. – 7:00 p.m. Central Time

automated information line call 800-595-9111, 24 hours a day, 7 days a week

online visit northernfunds.com

by mail write to Northern Funds, P.O. Box 75986, Chicago, Illinois 60675-5986



Please carefully read the prospectus and summary prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds before investing. Call 800-595-9111 to obtain a prospectus and summary prospectus, which contains this and other information about the funds.

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