

Standards Bearer

The Northern Small Cap Core Fund seeks outperformance through quality and diversification

Veteran portfolio manager Robert Bergson takes a common sense approach to picking stocks for his Northern Small Cap Core Fund.

“We try to dampen risk by aggressively screening for quality businesses,” Bergson said. “And lots of them.”

Indeed, the Northern Small Cap Core Fund attains broad diversification by holding well over 1,000 stocks. That mega-sized portfolio of smallish companies is divided into three segments: small-cap value, small-cap growth, and micro-cap.

For the small-value and small-growth portions, Bergson calculates a “quality score” that identifies stocks he wants to stop accumulating or avoid entirely.

Bergson marks down value companies whose earnings seem more one-off than repeatable, as well as those that could have trouble financing future growth from cash flow. Within the growth segment, he screens for businesses with subpar return on assets, declining or stagnant top-line revenue, and those he thinks are unable to invest in their future through research and development or capital spending.

Numbers game

The Fund’s micro-cap allocation is compiled differently.

“We sample within the micro-cap segment to make sure we have a diversified, long-term allocation to the sector,” Bergson said. “We’re trying to capture some of what we consider to be high-growth opportunities in that segment of the market.”

Roughly two out of every three stocks in the Fund fall into the micro-cap category. Because of Bergson’s diversified approach, however, they account for only about one-third of the Fund’s market value.

At the other end of the capitalization spectrum, Bergson won’t necessarily sell a stock just because it grew too large to be included within the investment range of the benchmark. Still, with its average weighted market cap of \$1.9 billion, the Northern Small Cap Core Fund falls comfortably into the small-cap category.

Homebodies

Despite concerns that small-cap stocks have gotten pricey, comparisons with previous market cycles might be misleading.

“Overall, we believe the small-cap sector is in much better financial shape than it was even a decade ago,” Bergson said. Some smaller companies also might have less



exposure to the struggling economies of Europe and Asia, while getting a larger share of sales from the stronger U.S. market.

The bottom line: Bergson thinks the long-term outperformance potential of the small-cap sector argues strongly for its continued inclusion in an equity portfolio.

Especially, he adds, a portfolio that emphasizes diversification and quality. ■

Past performance is no guarantee of future results.

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.

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 contain this and other information about the funds.

Northern Funds Distributors, LLC
Three Canal Plaza, Suite 100
Portland, Maine 04101
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