

NORTHERN FUNDS

# Multi-Manager High Yield Opportunity Fund (NMHYX)

## 2Q 2019 Performance Review

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June 30, 2019

*Must be preceded or accompanied by a current prospectus*



# MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

## Fund Facts

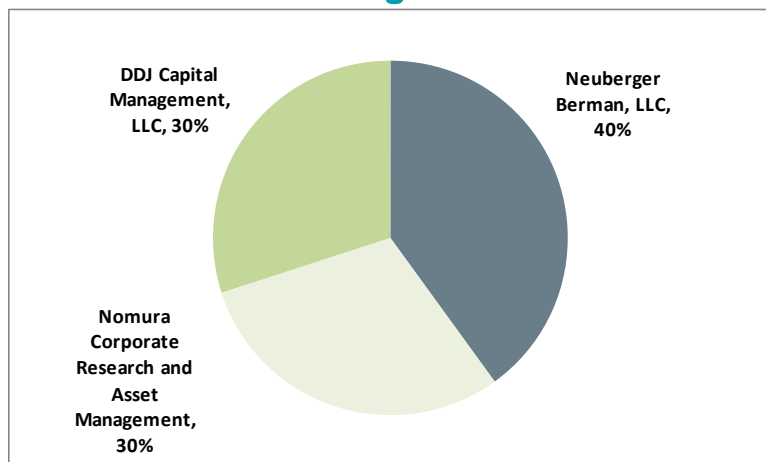
**Fund Objective:** Total return through income & capital appreciation

**Inception Date:** September 23, 2009

**Ticker Symbol:** NMHYX

**Benchmark:** ICE BofAML US High Yield Constrained Index

## Sub-Adviser Target Allocations\*



\*Actual allocations may vary.

## Strategy Objectives

- Total return approach to high yield investing that is implemented by combining a complementary set of investment managers designed to achieve an attractive risk-return profile.
- Opportunistic strategy that seeks to emphasize the most attractive areas of the market from a quality and sector perspective, while maintaining a diversified investment approach.
- The Fund will also invest in asset classes outside of traditional high yield, particularly bank loans, which can offer comparable return potential with the added benefit of diversification.
- *Total return approach to high yield investing that is implemented by selecting a complementary set of investment managers and combining to create an attractive risk-return profile. The Fund pursues an opportunistic strategy that seeks to invest in a variety of asset classes outside of traditional high yield that offer comparable return potential but lower correlation.*

## Portfolio Characteristics

- Well diversified portfolio, benchmarked to ICE BofAML US High Yield Constrained Index.
- The Fund currently uses three sub-advisers with various investment approaches.
- The Fund will differ from the Index by yield metrics and sector and quality allocations, however the performance profile expected to be appropriate for a core high yield allocation.

# GLOSSARY

**Bond Risk:** Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates.

**High Yield Risk:** Although a high yield fund's yield may be higher than that of fixed income funds that purchase higher-rated securities, the potentially higher yield is a function of the greater risk that a high yield fund's share price will decline.

**Multi Manager Risk:** is the risk that the sub-advisers' investment styles will not always be complementary, which could affect the performance of the Fund.

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**Yield to Maturity:** The rate of return an investor can expect from a bond at the purchased price if it is held to the maturity date. It is assumed that coupon payments can be reinvested at this same rate until maturity.

**Current Yield:** The market-value weighted average of the current yields of the securities in the portfolio. The current yield is the coupon rate divided by the market price of the bond.

**Average Coupon:** The weighted average coupon rate of all securities in the portfolio. The coupon is the fixed payment portion of the security, or similarly, the rate of interest on the principal.

**Effective Duration:** Measures the sensitivity of a security or portfolio to changes in interest rates. Effective duration is often expressed in years. When a portfolio has longer duration, there is greater interest rate sensitivity and risk.

**Average Life:** The average number of years for which each dollar of unpaid principal on a bond remains outstanding. Once calculated, weighted average life tells how many years it will take to pay half of the outstanding principal.

**Quality Distribution:** Credit quality ratings are compiled from two external rating agencies: Moody's and Standard & Poor's. We report the lowest rating of the two in the event there are any differences between them. If neither of these rating agencies has assigned a rating, the Fund will assign a rating of not rated. The ratings, expressed in Standard & Poor's nomenclature, range from AAA (extremely strong capacity to meet its financial commitment) to D (in default). Short-term ratings, expressed in Standard & Poor's nomenclature, range from A-1 (obligor's capacity to meet its financial commitment on the obligation is strong) to A-3 (exhibits adequate protection parameters). Government securities consist of obligations issued or guaranteed by the U.S. Treasury. The ratings represent the rating agencies' opinions of the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality.

**30-Day SEC Yield:** The total amount of dividends and interest accrued in the past 30 days less fund expenses as a percentage of total fund assets. Yield will fluctuate as securities are purchased, sold and mature over time.

**ICE BofAML US High Yield Constrained Index** contains all securities in the BofA Merrill Lynch U.S. High Yield Constrained Index, but caps issuer based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. It is not possible to invest directly in an index. Effective October 2017, ICE data services acquired BofA indices.

Please refer to the Fund's prospectus for further information relating to principal risks.



# MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Fund Performance & Quarterly Fund Commentary

2Q | 2019

## QUARTERLY COMMENTARY

- The high yield market returned 2.57% during the second quarter, as measured by the ICE BofAML U.S. High Yield Constrained Index. Higher quality securities outpaced lower quality with the BB and B credit quality issuers returning 3.17% and 2.31%, respectively. Financials, which as a sector is higher in quality, returned a positive 3.40%. CCC and lower rated securities returned 0.58% for the quarter. Lower quality was mostly dragged down by energy and specifically oil field services. The sector had an overall negative return of -0.84% and was the bottom-performing sector for the quarter. The yield to maturity for the index ended the quarter at 6.45%.
- During the quarter, the Fund underperformed its benchmark posting a return of 1.57% compared to 2.57% for its benchmark, the ICE BofAML High Yield Constrained Index. Exposure to bank loans and an overweight to CCCs, primarily driven by sub-adviser DDJ, were the main detractors to performance as compared to the Fund's benchmark. Higher quality bonds outperformed lower quality bonds for the quarter, which was also detracted from performance for sub-adviser Nomura, specifically in the energy sector. This quality dispersion was additive for sub-adviser Neuberger Berman, who has a higher quality bias to their securities.

### PERFORMANCE (in %) as of June 30, 2019

	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Inception to Date	2018	2017	2016	2015	2014
<b>Multi-Manager High Yield Opportunity Fund - Inception 9/23/09</b>	1.57	7.39	4.67	7.20	3.83	--	6.65	-2.09	7.88	16.89	-5.93	1.94
ICE BofAML US High Yield Constrained Index	2.56	10.16	7.58	7.54	4.70	--	7.93	-2.27	7.48	17.49	-4.61	2.51
Excess Return	-0.99	-2.76	-2.91	-0.34	-0.88	--	-1.27	0.18	0.40	-0.59	-1.32	-0.57
Annual Expense Ratio: Gross, 1.00%; Net, 0.87% <sup>1</sup>												

Returns quoted represent past performance, which 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. Call 800-595-9111 for returns current to the most recent month-end. Returns for periods greater than one year are annualized. Net expense ratio reflects voluntary expense reimbursements by the Fund's investment advisors that may be changed or terminated at any time. See the Appendix for additional disclosure about performance.

<sup>1</sup>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, 2019.

The Fund benchmark is the ICE BofA ML US High Yield Constrained Index.



# MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Fund Characteristics

2Q | 2019

## FUND FACTS

**Fund Objective:** Total return through income & capital appreciation  
**Inception Date:** September 23, 2009  
**Ticker Symbol:** NMHYX  
**Benchmark:** ICE BofA ML US High Yield Constrained Index

## 5 LARGEST HOLDINGS

Company	% of Fund
United States Dollar	5.0%
Asurion Corporation TI	1.4%
One Call Corporation 144A	1.3%
Us Renal Care Inc	1.1%
Gtt Communications Inc 144A	0.9%
Total*	9.7%

## FUND CHARACTERISTICS

	NMHYX	Benchmark
Yield To Maturity (%)	7.5%	6.4%
Current Yield (%)	7.1%	6.5%
Avg. Coupon (%)	6.8%	6.4%
Average Life (yrs)	4.4	4.5
Effective Duration (yrs)	2.8	3.4
Number of Holdings	1,181	1,796
30-Day SEC Yield w/Waivers	6.8%	N/A
30-Day SEC Yield w/o Waivers	6.7%	N/A

\*The "Total" column may not sum exactly due to rounding.

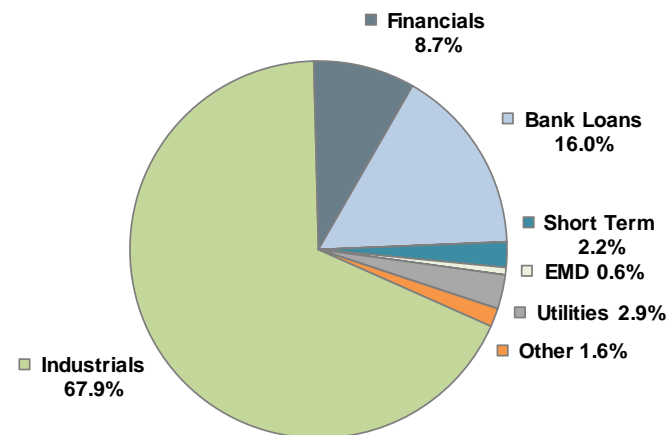
\*\*Currency positions are excluded.

Portfolio composition may change at any time.

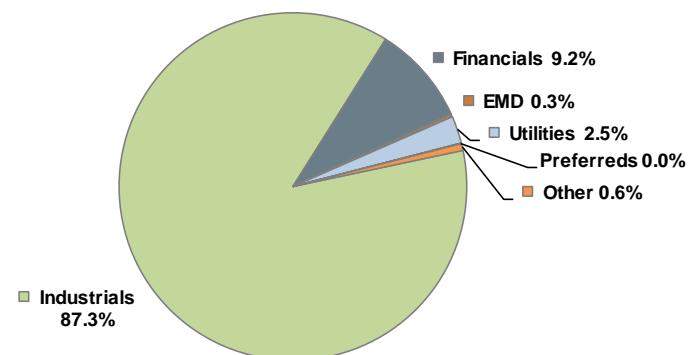
Source: Blackrock

5 See page 10 for important disclosure information

## NMHYX



## ICE BofA ML US High Yield Constrained Index



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# Sub-Adviser 2Q 2019 Review

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# MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Sub-Adviser Allocation and Portfolio Characteristics

2Q | 2019

## SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
Neuberger Berman Investment Advisors, LLC	40%	Traditional high-yield strategy focusing on credit selection as well as allocation among sector and quality segments based on relative value. The portfolio may also invest in bank loans.
DDJ Capital Management, LLC	30%	Concentrated, bottom-up oriented strategy that specifically focuses on the middle market segment of the high yield universe in addition to leveraged loans.
Nomura Corporate Research and Asset Management Inc.	30%	Diversified, relative value approach incorporating a top-down perspective. The strategy is expected to have a higher risk profile versus the benchmark, with higher up capture ratios.

## PORTFOLIO CHARACTERISTICS

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Yield To Maturity (%)	5.7%	10.4%	6.7%	7.5%	6.4%
Current Yield (%)	5.9%	8.8%	6.8%	7.1%	6.5%
Avg. Coupon (%)	5.9%	8.2%	6.5%	6.8%	6.4%
Average Life (yrs)	4.3	4.6	4.5	4.4	4.5
Effective Duration (yrs)	3.2	2.2	3.1	2.8	3.4
Number of Holdings	428	82	897	1,181	1,796

\*Actual allocations may vary.

\*\*Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas



# MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Sub-Adviser Sector and Regional/Country Allocations

2Q | 2019

## SECTOR ALLOCATIONS

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Industrials	79.2%	52.1%	74.3%	67.9%	87.3%
Short Term	2.1%	-0.1%	0.7%	2.2%	0.0%
Financials	8.2%	6.8%	12.1%	8.7%	9.2%
Bank Loans	4.7%	37.7%	6.5%	16.0%	0.0%
Convertibles	0.0%	0.0%	0.1%	0.0%	0.0%
EMD	0.0%	0.0%	2.2%	0.6%	0.3%
RMBS	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	5.1%	0.0%	3.5%	2.9%	2.5%
Foreign	0.0%	0.0%	0.0%	0.0%	0.0%
Preferreds	0.0%	0.0%	0.0%	0.0%	0.0%
CMBS	0.0%	0.0%	0.0%	0.0%	0.0%
ABS	0.0%	0.0%	0.0%	0.0%	0.0%
Treasuries	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.7%	3.5%	0.7%	1.6%	0.6%
<b>Total*</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## QUALITY EXPOSURES

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Cash Equiv.	4.3%	1.3%	2.2%	5.0%	0.0%
AAA	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	1.0%	0.0%	3.7%	1.4%	0.1%
BB	39.6%	0.0%	32.1%	23.7%	41.1%
B	47.4%	16.9%	44.4%	35.5%	43.1%
CCC or Below	7.6%	65.4%	16.8%	28.8%	15.6%
N/R	0.0%	16.5%	0.8%	5.6%	0.2%
<b>Total*</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\*The "Total" column may not sum exactly due to rounding.

Portfolio composition may change at any time.

Source: Blackrock





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# Appendix

## Disclosure of additional information

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# APPENDIX: DISCLOSURES

- **Past performance does not guarantee future results.**
- Total return is based on net change in NAV, assuming reinvestment of all distributions. Returns for periods greater than one year are annualized. Sub-adviser returns are represented gross of Fund expenses. Returns of an index do not reflect the deduction of any management fees, transaction costs or other expenses. Direct investment in an index is not possible.
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