

# NORTHERN FUNDS

## SMALL CAP VALUE FUND (NOSGX)

As of 12/31/20

### FUND COMMENTARY

Investors quickly looked through election uncertainty and focused on positive news surrounding COVID-19 vaccine development. The Russell 2000 Value Index posted strong gains to finish the year, outperforming larger capitalization and growth indexes as the risk-on sentiment, which prevailed since the second quarter, intensified. Value still trailed growth by 30% for the year and more than 12% per year on average for the last three as measured by the Russell Small Cap Indexes. Concerns that ongoing monetary and fiscal stimulus might be stoking asset bubbles didn't stop higher risk, lower quality, and less profitable stocks from outperforming.

The Fund underperformed its benchmark index in the quarter. Sector return spreads were again wide, as utilities and real estate lagged the index overall. Materials and energy rebounded sharply and led this quarter, as did technology, all of which were up more than 35%. Sector selection contribution was modest (as intended), but positive. Stock selection, however, was weak in most sectors but most meaningfully in the better-performing consumer discretionary, technology, and industrials sectors.

Overall, Fund performance struggled amidst the risk-on preference for stocks with lower profitability and higher volatility. Stocks rated "buy" by our proprietary stock selection model underperformed "sell"-rated stocks in all but two sectors. Sell-rated stocks outperformed in the Fund by 20% and most dramatically within energy and materials sectors. Similarly, stocks in the highest volatility, lowest profit margin, and lowest return-on-equity quintiles outperformed the index. The strong performance of the lowest momentum quintile, underweighted by our model, outperformed by more than 20% and was another significant detractor from relative returns.

Going forward, consistent with our long-term approach, we will continue to seek more reasonably priced, but more profitable, small-company stocks and avoid lower quality companies. We continue to apply our disciplined cost- and risk-efficient investment strategy, balancing return, risk, and transaction costs, in an effort to achieve intended objectives.

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

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Performance as of 12/31/20				Annualized Returns					
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross Expense Ratio	Net Expense Ratio
Small Cap Value Fund	27.40%	-2.30%	-2.30%	1.03%	7.01%	8.26%	9.23%	1.11%	1.00%
Russell 2000 Value Index	33.36%	4.63%	4.63%	3.72%	9.65%	8.66%	9.63%		

\*Inception Date- 04/01/94

**Performance quoted represents past performance and 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 than that shown here. Performance data current to the most recent month end is available by calling 800-595-9111.**

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, 2021.

Not FDIC insured | May lose value | No bank guarantee

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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