

NORTHERN FUNDS

SMALL CAP VALUE FUND (NOSGX)

As of 06/30/20

FUND COMMENTARY

The markets rebounded from the first quarter decline with one of the largest quarterly rallies on record. Risk appetite returned as investors were confident that fiscal and monetary support had removed the worst case scenarios for the economy. Continued low interest rates, declining credit spreads, and increasing commodity prices also supported the recovery in equity markets. The Small Cap Value Fund had a return of 14.74%, while the Russell 2000 Value Index had a return of 18.91%. Despite a brief period of value outperformance, small cap value stocks (represented by the Russell 2000 Value Index) underperformed the Russell 2000 Growth Index significantly in the quarter, as well as underperforming larger capitalization value and core indexes. The most successful stocks within the value index were more volatile, less profitable, and had lower quality ratings, all of which are underweighted in the portfolio.

Reversions in sector returns were sharp compared with the first quarter, with continued high levels of dispersion. Sector allocation difference with the benchmark resulted in modest impact to the Fund, except for an underweight to the strongly-performing health care sector, particularly among bio-techs (which returns more than 50% in the quarter). Stock selection was weak within most sectors, but significantly so within the higher-returning consumer discretionary and the health care sectors. These strong returns on previously-depressed stocks tended to favor the less profitable, more highly-levered, and more volatile companies. Across the benchmark, the most volatile stocks outperformed the least volatile by almost 50%, the largest such spread in 18 years – including during the rebound from the global financial crisis (GFC). Similarly, performance among stocks without reported earnings was exceptional, outperforming by more than at any other time since the GFC.

Going forward, as is 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 06/30/20				Annualized Returns				Gross Expense Ratio	Net Expense Ratio
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*		
Small Cap Value Fund	14.74%	-24.77%	-19.57%	-5.45%	0.27%	8.06%	8.33%	1.14%	1.00%
Russell 2000 Value Index	18.91%	-23.50%	-17.48%	-4.35%	1.26%	7.82%	8.52%		

*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, 2020.

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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