

NORTHERN FUNDS

SMALL CAP CORE FUND (NSGRX)

As of 03/31/19

FUND COMMENTARY

Risk appetites returned in the first quarter of 2019, following a sharp selloff in the prior quarter. Successful stocks had characteristics of higher risk; lower profitability, cash flows, and earnings, as well as higher price volatility. Growth potential was favored rather than stability as expectations of interest rates, credit availability and economic conditions shifted with the beginning of the New Year.

The Small Cap Core Fund had a return of 12.79% underperforming its benchmark, the Russell 2000 Index, which had a return of 14.58%. Generally, better performance of lower quality stocks, as defined by our quality models, led to weak stock selection within most sectors. Stock selection was most significantly impacted in health care. The lowest rated stocks within the health care sector, underweighted relative to the index based on our proprietary quality models, had the strongest performance, leading to the weak stock selection results. Together with an underweight, more generally, to the outperforming biotechnology industry, portfolio performance within the health care sector accounted for almost half of the underperformance over the quarter. Modest weight differences at the sector levels, particularly to health care and utility stocks, led to a moderately negative contribution to return.

The market's attraction to higher risk investments didn't apply equally to micro-cap stocks, to which the portfolio has an allocation, as stocks of companies with capitalization below \$350 million trailed the return of the Russell 2000 Index. More consistent in performance were the profitability measures which generally favored lower (and negative) profit margins, lower (and negative) returns on equity, and higher volatility. Volatility, in particular, seemed to be a desired feature; stocks in the index within the highest quintile of volatility (based on trailing 24 month standard deviation¹ of returns), had a return of more than 24% in the first quarter, outperforming the benchmark by almost 10%.

Going forward, we will continue to seek diverse exposure to domestic small cap stocks, including those within the smallest segments of the market, avoid stocks of companies with low-quality characteristics and maintain a disciplined process to manage active risk and transaction cost.

1. Standard Deviation is a statistical measurement of dispersion about an average, which depicts how widely returns varied over a certain period of time.

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 03/31/19				Annualized Returns					
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross Expense Ratio	Net Expense Ratio
Small Cap Core Fund	12.79%	12.79%	1.68%	11.61%	6.86%	15.35%	7.29%	0.73%	0.65%
Russell 2000 Index	14.58%	14.58%	2.05%	12.92%	7.05%	15.36%	8.22%		

*Inception Date- 09/30/99

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, 2019.

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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