

NORTHERN FUNDS

SMALL CAP CORE FUND (NSGRX)

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 rebounded 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 Core Fund had a return of 21.70%, while the Russell 2000 Index had a return of 25.42%.

Reversions in sector returns were sharp compared with the first quarter, with continued high levels of dispersion. Consumer discretionary (up almost 60%), energy, and materials had extreme improvements and were among the best-performing sectors this quarter, while utilities went from the best-performing sector in the first quarter to the worst in the second. These sector results reflected the “risk-on” resurgence, which also left real estate and financials lagging the broader market. Overall, sector allocation difference with the benchmark was a modest but negative effect on excess returns, and in large part was a result of a modest underweight to the health care sector. Within health care, an underweight to surging bio-tech stocks was a substantial contributor of overall weakness in the sector.

More generally, stocks with lower-rated quality (as defined by our proprietary stock selection models) outperformed in the quarter, as did stocks without reported earnings, negative return-on-equity, low or negative profit margins, and those in the highest volatility group; all of which were underweighted in the portfolio, consistent with our aversion to low-quality stocks. While micro-caps in the benchmark did outperform, the portfolio holdings of micro-caps, drawn from a wider and more diverse set of small stocks, failed to keep up with the benchmark.

Although short term reversals are often sharp reminders that the market can move unexpectedly in response to changing economic conditions, we will continue to maintain our focus on higher-quality companies. Further, we will continue to seek diverse exposure to domestic small-cap stocks, including those within the smallest segments of the market, while maintaining a disciplined process to manage active risk and transaction costs.

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					
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross Expense Ratio	Net Expense Ratio
Small Cap Core Fund	21.70%	-14.04%	-8.59%	0.99%	3.47%	10.45%	6.52%	0.75%	0.65%
Russell 2000 Index	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%	7.46%		

*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, 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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