

NORTHERN FUNDS

U.S. QUALITY ESG FUND (NUESX)

As of 12/31/20

FUND COMMENTARY

After a short period of volatility around the U.S. election, the S&P 500 Index posted strong gains to finish the year at all-time highs. Investors quickly looked through election uncertainty and focused on positive news surrounding COVID-19 vaccine development. Credit spreads and market volatility declined, while oil prices, interest rates, and inflation expectations moved higher. Cyclical sectors benefitted from the improving economic environment. Energy and financials sectors were the best performing, benefitting from rising commodity prices and interest rates. Defensive sectors, such as real estate, utilities, and consumer staples lagged the broader market.

Despite the strong performance witnessed in the Energy sector during the quarter, the sector shed roughly a third of its value in 2020. While the Federal Reserve entered into the climate conversation this quarter, those institutions the Fed is tasked to supervise appear to be well ahead of them, as financing terms on long term oil and gas projects have risen substantially. Uncertain future demand combined with increased cost of capital, record write-downs, and the prospect of increased regulatory pressure has led to a dramatic pullback in spending on exploration. Meanwhile, capital expenditures in renewable power supply are climbing, and are expected to overtake oil and gas for the first time in history in 2021.

The Fund underperformed its benchmark in the quarter. The Fund's allocation to higher-quality securities detracted from performance, as the lowest quintile of quality stocks outperformed during the reopening rally. The portfolio's allocation to companies with favorable ESG profiles also had a negative effect on performance, as top ranked companies lagged for the period. Finally, while our sector effect was neutral for the quarter, our slight underweight to energy was a tailwind to relative returns in the year, given the more than 50% underperformance of the sector relative to the broad market year-to-date.

Looking ahead, we will continue to focus on investing in companies with favorable environmental, social and governance (ESG) qualities who also exhibit strong business fundamentals, solid management, and reliable cash flows. We believe the Fund is well-positioned for an accommodative interest rate environment and steady global growth.

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
U.S. Quality ESG Fund - Class K	12.43%	20.15%	20.15%	14.54%	N/A	N/A	15.36%	0.55%	0.39%
U.S. Quality ESG Fund - Class I	12.36%	20.07%	20.07%	14.51%	N/A	N/A	15.34%	0.65%	0.49%
Russell 1000 Index	13.69%	20.96%	20.96%	14.82%	N/A	N/A	15.73%		

*Inception Date- 10/02/17

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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