



EXPANDING DIVERSITY INVESTING AS WE KNOW IT

Institutional investors increasingly want to show their commitment to diversity with meaningful investments, without compromising performance. As a result, they may hire managers that are new, small, or owned by women and minorities.

But ownership is just one, narrow way to measure diversity. It says nothing about other factors which can have equal or even larger impact including the diversity of the workforce or community engagement. Investors should address this challenge by taking a more holistic view.

DIVERSITY PERFORMS

Diverse teams may be better at innovation that translate into higher profits. Companies in the top quartile for gender diversity on their executive teams were 15% more likely to experience above-average profitability than companies measured in the fourth quartile. According to a report published by McKinsey (2014), this advantage in profitability increased to 21% in an expanded analysis published in 2017. The report further notes, companies demonstrating top-quartile representation of ethnic and cultural diversity demonstrated a 33% likelihood to outperform on earnings before interest and taxes (EBIT).¹

As for innovation, companies with above-average diversity in management reported that almost half of their revenue came from innovative products and services, based on a Boston Consulting Group study of more than 1,700 companies. That's a 20% advantage over firms with below-average leadership diversity. Organizations with more diverse management also reported better overall financial performance.²

It's not only management that matters; an engaged workforce can also create value. Companies with engaged workforces demonstrated 22% higher productivity, a 2013 *Harvard Business Review* article indicated. In addition these companies scored high marks on other important measurements vis-à-vis their non-engaged peers, such as lower turnover, higher quality of work and fewer violations of health and safety standards.³

All of this empirical data points to an important conclusion: There is a larger group of diverse companies and asset managers available than once believed. And they create value. These diverse firms aren't just small and emerging. *They are also bigger and older firms that foster diversity within their workforces.*

The **Northern Engage360 Fund™** upends the old ideas with a commitment to asset managers who practice holistic diversity and engagement.

¹McKinsey & Company. Delivering through Diversity. January 2018.

²<https://www.bcg.com/d/press/23january2018-how-diverse-leadership-teams-boost-innovation-181548>

³<https://hbr.org/2013/07/employee-engagement-does-more>.

EMERGING MANAGERS PROGRAMS: NOT THE SAME AS DIVERSITY

Many investors invest in diversity through emerging manager programs, which limits them to smaller and newer firms that may or may not be diverse. The vast majority of women- and minority-owned firms in fact are not small or young. Knight/Bella (2017) recently conducted research that shows many women- and minority-owned managers with smaller asset sizes have an average track record longer than 10 years, as shown in Figures 1 and 2 below.

But only 1.2% out of the \$47 trillion mutual fund market is managed by women- and minority-owned firms. This demonstrated disparity underscores that this approach is not meaningfully redirecting assets to women- and minority-owned firms.

Women and minorities are underrepresented.

FIGURE 1: AVERAGE AUM OF ASSET MANAGERS

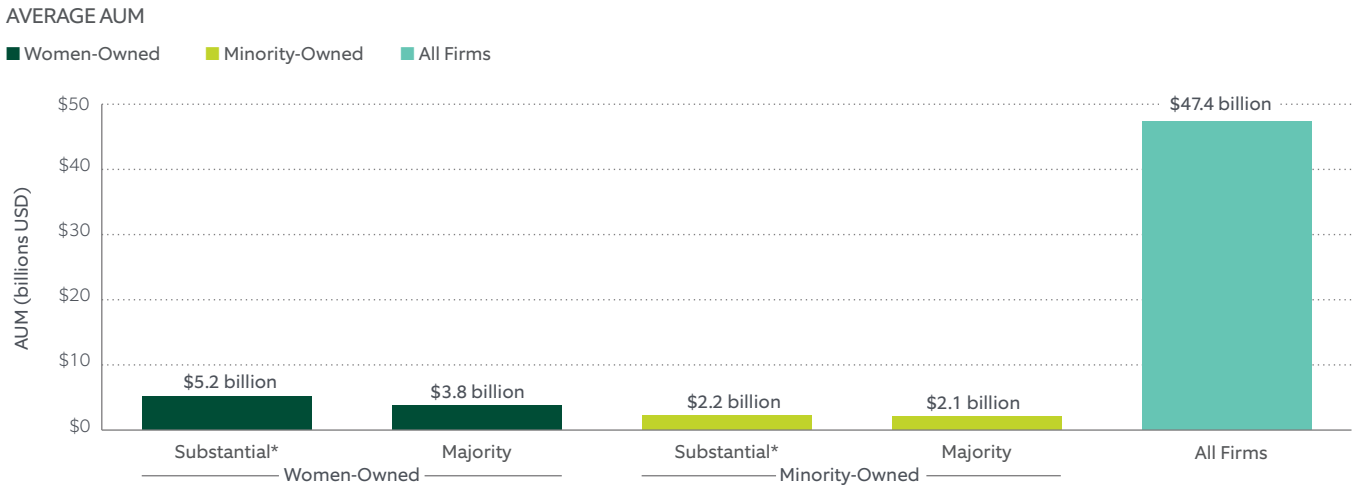


FIGURE 2: AVERAGE AGE OF ASSET MANAGERS



*Substantial: firms with women- and minority-ownership of 25–49%.

USE YOUR INFLUENCE

When broadening our lens to all investment management firms, women and minorities are also underrepresented in senior executive positions as shown in Figures 3 and 4 below.⁴ Though many investment management firms have been pursuing diverse hiring practices, the proportion of women and minority executives is low and does not appear to be growing. Investors have the opportunity to influence the behavior of investment management firms by demonstrating a commitment to diversity within their investment portfolios. This potential impact on diversity is greater given these firms represent the majority of jobs for investment professionals.

By assessing investment managers along these lines, we have an opportunity to focus on firms that have successfully prioritized diversity and engagement.

This culture of empowerment, value creation and engagement is the focus of the **Engage360Fund**.

FIGURE 3: WOMEN EXECUTIVES

Portfolio Management, Open-End Investment Funds, Other Financial Vehicles

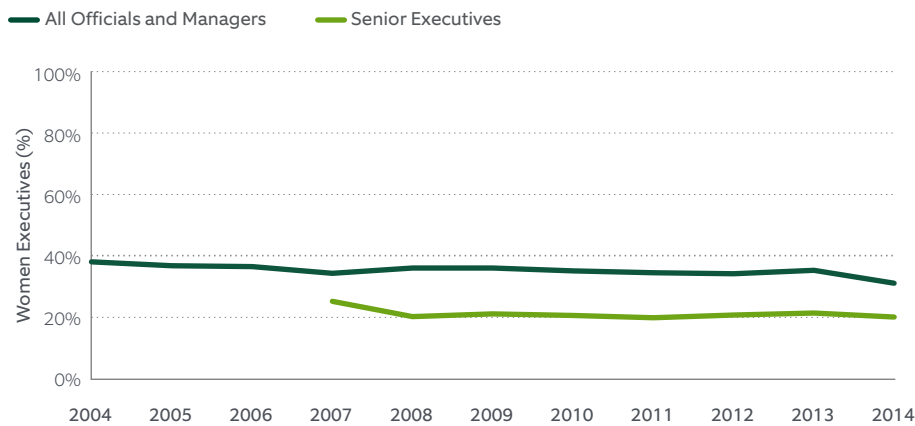
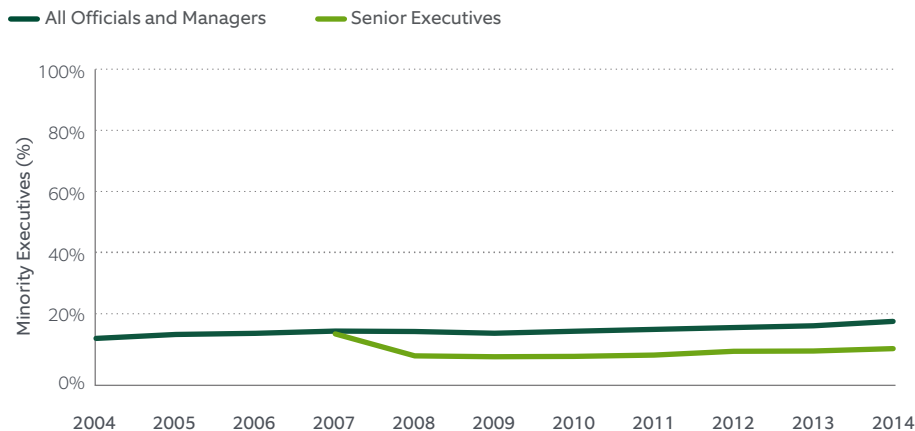


FIGURE 4: MINORITY EXECUTIVES

Portfolio Management, Open-End Investment Funds, Other Financial Vehicles



⁴Diversifying Investments, A Study of Ownership Diversity in the Asset Management Industry, Executive Report, May 2017; Knight Foundation/Bella Research Group.

WHAT HOLISTIC DIVERSITY MEANS

Investors should look beyond ownership as the primary (and often only) metric and focus on strategies that measure diversity from multiple angles.

With the **Northern Engage360 Fund**, we use a proprietary survey of multiple diversity factors that cannot be found in databases for manager searches. We apply this survey to the more than 100 managers that have already been approved by Northern Trust’s Multi-Manager Solutions Group.

Our survey collects data on a wide range of diversity and engagement metrics, including:

- Total workforce
- Executive leadership
- Investment team
- Community engagement — volunteerism and charitable donations
- Diversity among professional service providers — brokerage, law firms, accounting firms and others
- Ownership

Our **Multi-Manager Solutions Group** has four decades of experience with over \$100 billion in assets under management or advisement.

FIGURE 5: COMPONENTS OF THE ENGAGE360 DIVERSITY SURVEY

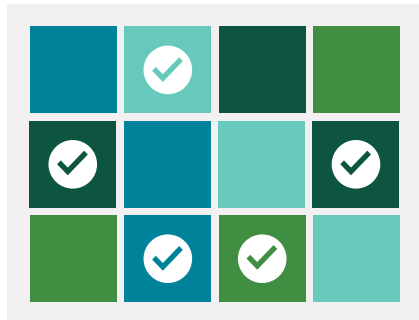


This survey provides insight into a broad spectrum of diversity metrics among managers and is a significant improvement upon the conventional focus solely on ownership.

This more holistic approach captures metrics on leadership, investment theme, community engagement and corporate spending. With the results of our manager survey in hand, we score and weight the responses to create a composite diversity score for the 100+ pre-approved managers.

WHAT HOLISTIC DIVERSITY MEANS (CONTINUED)

FIGURE 6: COMPONENTS OF THE ENGAGE360 DIVERSITY SURVEY



**APPROVED INVESTMENT
MANAGER UNIVERSE**

Investment Managers (100+)

- U.S. equity
- Developed markets (ex-U.S.) equity
- Emerging markets equity



**ANNUAL DIVERSITY AND
ENGAGEMENT ASSESSMENT**

Assessment Categories

- Leadership
- Investment teams
- Community engagement
- Corporate spending



**SCORING, WEIGHTING
AND ANALYSIS**

Key Practices

- Review data
- Determine thresholds for scoring
- Monitor consistently

With the results from our proprietary and confidential survey, our analysts engage in candid discussions and access information not available to the public, leveraging established and robust relationships with our pool of managers. This analysis identifies managers that demonstrate a culture of employee engagement, community involvement, and a commitment to diversity across the firms’ activities. We have developed a quantitative and comprehensive scoring methodology, allowing us to assess managers consistently across the universe. This methodology and survey will focus on continuous improvement, allowing us to engage in this dialogue on an ongoing basis.

FOCUS ON COMPETITIVE PERFORMANCE

Seeking competitive investment performance should be a primary, not secondary, focus of the manager selection process. This is why we only use managers that have been approved by the Northern Trust Multi-Manager Solutions Group for the **Engage360 Fund**. Even before we apply our diversity survey, we are already working with a group of more than 100 managers that have been selected for their demonstrated skill in generating alpha.

FIGURE 6: MULTI-MANAGER SOLUTIONS GROUP SCREENING PROCESS

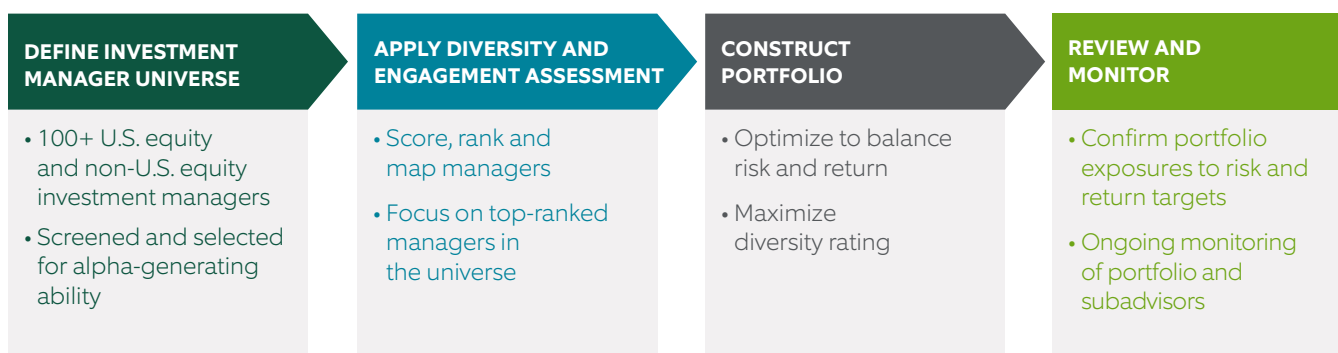


With a pre-approved group of managers in hand, we separate them into quartiles based on their diversity survey rankings and look at the top half of managers for inclusion in the **Engage360 Fund**. We believe this approach provides a depth of analysis absent from conventional diversity hiring practices because we start with a universe of managers that have proven investment skill, complemented by our broader assessment of diversity and engagement.

FOCUS ON COMPETITIVE PERFORMANCE (CONTINUED)

The next step in our process is to leverage our longstanding portfolio construction expertise to build a portfolio of complementary strategies with the goals of minimizing unintended factor exposures and focusing on long-term alpha generation. The portfolio is then reviewed to confirm exposures and positioning to ensure we are meeting risk and portfolio guidelines.

FIGURE 7: PORTFOLIO CONSTRUCTION PROCESS FOR THE ENGAGE360 FUND



The result is a portfolio comprised of managers with demonstrated cultural characteristics and optimized for risk and return. The fund is a core global equity strategy benchmarked to the MSCI All-Country World Index. The fund primarily invests in listed developed and emerging markets equities. It will consider a variety of metrics such as factor exposures, style, performance, and the characteristics of underlying holdings. These characteristics include capitalization, growth and profitability measures, valuation metrics, economic sector exposures, and earnings and volatility statistics. The fund will typically consist of five to eight investment managers to provide a globally diversified portfolio with strong growth and valuation metrics, while seeking to control volatility and manage equity risk factor exposures relative to the benchmark.

Currently, the **Engage360 Fund** is invested in five equity managers as detailed in Figure 8 to the right.

TIME TO MAKE A CHANGE

It's time to take a more holistic view of diversity in investing.

By resetting the dialogue on all managers, we have the opportunity to drive positive change across the investment industry. We believe this approach will encourage investment managers to take a more expansive view of diversity within their business and across the industry. The **Engage360 Fund** enables investors to pursue both the investment performance and diversity objectives they seek.

⁵Denver Investment Advisors, LLC, a sub-adviser to the Northern Engage360™ Fund, was acquired by Segall Bryant & Hamill, LLC on April 30, 2018. Upon the acquisition, Denver changed its name to Segall Bryant & Hamill, LLC.

FIGURE 8: CURRENT ENGAGE360 FUND SUB-ADVISORS

U.S. EQUITY		53.0%
Aristotle Capital Management, LLC		33.0%
Segall Bryant & Hamill, LLC ⁵		10.0%
EARNEST Partners, LLC		10.0%
NON-U.S. EQUITY		47.0%
Ariel Investments, LLC		23.5%
Strategic Global Advisors, LLC		23.5%

Not FDIC insured | May lose value | No bank guarantee

About Northern Funds: An investment in Northern Funds involves risks, including possible loss of principal. The Northern Engage 360 Fund is subject to the following principal risks:

RISK CONSIDERATIONS, INDEX DEFINITIONS AND INVESTMENT TERMS

Risk Considerations: There are risks involved in investing including possible loss of principal. There is no guarantee that the investment objectives of any fund or strategy will be met. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Equity Risk: Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed-income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes.

International Risk: International investing involves increased risk and volatility.

Emerging Markets Risk: The markets of emerging market countries are less developed and less liquid, subject to greater price volatility and generally subject to increased economic, political, regulatory and other uncertainties than more developed markets.

Frontier Markets Risk: Frontier countries generally have smaller economies or less developed capital markets than traditional emerging markets and, as a result, the risk of investing in emerging market countries are magnified in frontier countries.

MSCI All Country World Index (MSCI ACWI): A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging market country indices.

Multi-Manager Risk: Sub-advisers' investment styles will not always be complementary, which could affect the performance of the Fund.

New Fund Risk: The Fund, because it is new with no operating history, may not grow or maintain an economically viable size, in which case the Board of Trustees of the Trust may determine to liquidate the Fund.

It is not possible to invest directly in an index. Portfolio holdings are subject to change.

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. The summary prospectus and prospectus contain this and other information about the Funds.

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