

NORTHERN FUNDS

Multi-Manager High Yield Opportunity Fund (NMHYX)

4Q 2018 Performance Review

December 31, 2018

Must be preceded or accompanied by a current prospectus



MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Fund Facts

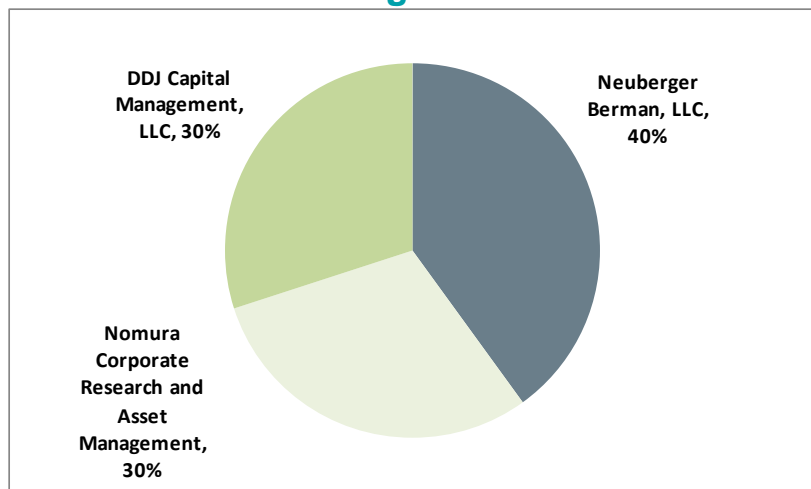
Fund Objective: Total return through income & capital appreciation

Inception Date: September 23, 2009

Ticker Symbol: NMHYX

Benchmark: ICE BofAML US High Yield Constrained Index

Sub-Adviser Target Allocations*



*Actual allocations may vary.

Strategy Objectives

- Total return approach to high yield investing that is implemented by combining a complementary set of investment managers designed to achieve an attractive risk-return profile.
- Opportunistic strategy that seeks to emphasize the most attractive areas of the market from a quality and sector perspective, while maintaining a diversified investment approach.
- The Fund will also invest in asset classes outside of traditional high yield, particularly bank loans, which can offer comparable return potential with the added benefit of diversification.
- *Total return approach to high yield investing that is implemented by selecting a complementary set of investment managers and combining to create an attractive risk-return profile. The Fund pursues an opportunistic strategy that seeks to invest in a variety of asset classes outside of traditional high yield that offer comparable return potential but lower correlation.*

Portfolio Characteristics

- Well diversified portfolio, benchmarked to ICE BofAML US High Yield Constrained Index.
- The Fund currently uses three sub-advisers with various investment approaches.
- The Fund will differ from the Index by yield metrics and sector and quality allocations, however the performance profile expected to be appropriate for a core high yield allocation.

GLOSSARY

Bond Risk: Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates.

High Yield Risk: Although a high yield fund's yield may be higher than that of fixed income funds that purchase higher-rated securities, the potentially higher yield is a function of the greater risk that a high yield fund's share price will decline.

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

Yield to Maturity: The rate of return an investor can expect from a bond at the purchased price if it is held to the maturity date. It is assumed that coupon payments can be reinvested at this same rate until maturity.

Current Yield: The market-value weighted average of the current yields of the securities in the portfolio. The current yield is the coupon rate divided by the market price of the bond.

Average Coupon: The weighted average coupon rate of all securities in the portfolio. The coupon is the fixed payment portion of the security, or similarly, the rate of interest on the principal.

Effective Duration: Measures the sensitivity of a security or portfolio to changes in interest rates. Effective duration is often expressed in years. When a portfolio has longer duration, there is greater interest rate sensitivity and risk.

Average Life: The average number of years for which each dollar of unpaid principal on a bond remains outstanding. Once calculated, weighted average life tells how many years it will take to pay half of the outstanding principal.

Quality Distribution: Credit quality ratings are compiled from two external rating agencies: Moody's and Standard & Poor's. We report the lowest rating of the two in the event there are any differences between them. If neither of these rating agencies has assigned a rating, the Fund will assign a rating of not rated. The ratings, expressed in Standard & Poor's nomenclature, range from AAA (extremely strong capacity to meet its financial commitment) to D (in default). Short-term ratings, expressed in Standard & Poor's nomenclature, range from A-1 (obligor's capacity to meet its financial commitment on the obligation is strong) to A-3 (exhibits adequate protection parameters). Government securities consist of obligations issued or guaranteed by the U.S. Treasury. The ratings represent the rating agencies' opinions of the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality.

30-Day SEC Yield: The total amount of dividends and interest accrued in the past 30 days less fund expenses as a percentage of total fund assets. Yield will fluctuate as securities are purchased, sold and mature over time.

ICE BofAML US High Yield Constrained Index contains all securities in the BofA Merrill Lynch U.S. High Yield Constrained Index, but caps issuer based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. It is not possible to invest directly in an index. Effective October 2017, ICE data services acquired BofA indices.

Please refer to the Fund's prospectus for further information relating to principal risks.



MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Fund Performance & Quarterly Fund Commentary

4Q | 2018

QUARTERLY COMMENTARY

- The high yield market returned -4.67% during the fourth quarter, as measured by the ICE BofAML U.S. High Yield Constrained Index. From a quality perspective, the CCC & Below rated segment performed worst with a return of -10.35%, while B- and BB-rated issues returned -4.85% and -2.99%, respectively. During the risk-off environment, utilities performed the best from a sector perspective. Energy, dragged down by lower oil prices, was one of the worst performers on an industry basis. Telecommunication services and basic services also were laggards for the Index.
- During the quarter, the Multi-Manager High Yield Opportunity Fund outperformed its benchmark posting a return of -4.35% compared to -4.67% for the ICE BofAML High Yield Constrained Index. Exposure to bank loans and an underweight to energy were additive as interest rates continued to rise and oil prices ended the quarter lower. As higher quality outperformed lower quality broadly, a high-quality bias on a security selection level, specifically within the CCC & Below rated segment of the Fund, also contributed to performance.

PERFORMANCE (in %) as of December 31, 2018

	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Inception to Date	2017	2016	2015	2014	2013
Multi-Manager High Yield Opportunity Fund - Inception 9/23/09	-4.35	-2.09	-2.09	7.28	3.44	--	6.20	7.88	16.89	-5.93	1.94	6.67
ICE BofAML US High Yield Constrained Index	-4.67	-2.27	-2.27	7.27	3.83	--	7.24	7.48	17.49	-4.61	2.51	7.41
<i>Excess Return</i>	0.32	0.18	0.18	0.01	-0.40	--	-1.04	0.40	-0.59	-1.32	-0.57	-0.74
<i>Annual Expense Ratio: Gross, 1.00%; Net, 0.87%¹</i>												

Returns quoted represent past performance, which 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. Call 800-595-9111 for returns current to the most recent month-end. Returns for periods greater than one year are annualized. Net expense ratio reflects voluntary expense reimbursements by the Fund's investment advisors that may be changed or terminated at any time. See the Appendix for additional disclosure about performance.

¹The 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.

The Fund benchmark is the ICE BofA ML US High Yield Constrained Index.

4 See page 10 for important disclosure information



MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Fund Characteristics

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FUND FACTS

Fund Objective: Total return through income & capital appreciation
Inception Date: September 23, 2009
Ticker Symbol: NMHYX
Benchmark: ICE BofA ML US High Yield Constrained Index

5 LARGEST HOLDINGS

Company	% of Fund
United States Dollar	17.3%
Asurion Corporation TI	0.9%
Polaris Intermediate Corp 144A	0.7%
Avantor Inc 144A	0.6%
Specialty Stl Holdco Inc 144A	0.6%
Total*	20.1%

FUND CHARACTERISTICS

	NMHYX	Benchmark
Yield To Maturity (%)	7.4%	8.0%
Current Yield (%)	6.6%	6.9%
Avg. Coupon (%)	6.1%	6.4%
Average Life (yrs)	4.4	5.8
Effective Duration (yrs)	2.8	4.1
Number of Holdings	1,162	1,838
30-Day SEC Yield w/Waivers	6.7%	N/A
30-Day SEC Yield w/o Waivers	6.5%	N/A

*The "Total" column may not sum exactly due to rounding.

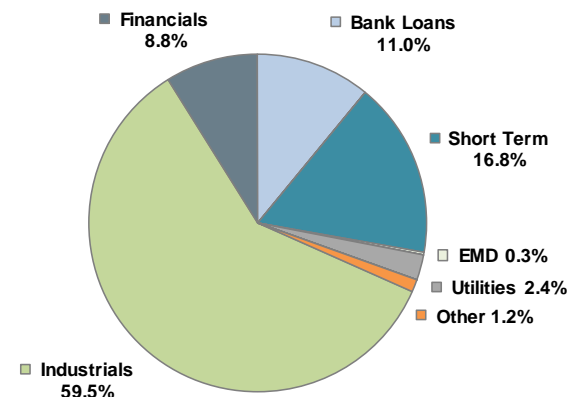
**Currency positions are excluded.

Portfolio composition may change at any time.

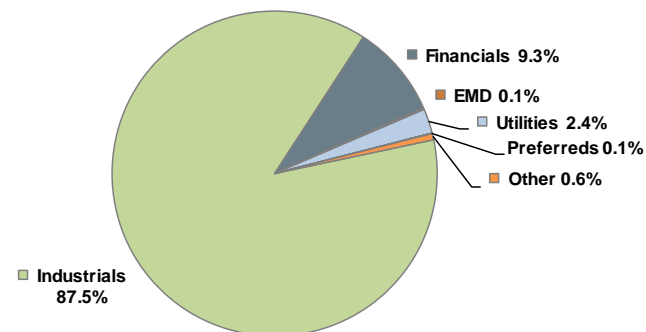
Source: Blackrock

5 See page 10 for important disclosure information

NMHYX



ICE BofA ML US High Yield Constrained Index



NORTHERN FUNDS

Sub-Adviser 4Q 2018 Review



MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Sub-Adviser Allocation and Portfolio Characteristics

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SUB-ADVISER ALLOCATION

Sub-Adviser	Target Allocation*	Role in Portfolio
Neuberger Berman, LLC	40%	Traditional high-yield strategy focusing on credit selection as well as allocation among sector and quality segments based on relative value. The portfolio may also invest in bank loans.
DDJ Capital Management, LLC	30%	Concentrated, bottom-up oriented strategy that specifically focuses on the middle market segment of the high yield universe in addition to leveraged loans.
Nomura Corporate Research and Asset Management	30%	Diversified, relative value approach incorporating a top-down perspective. The strategy is expected to have a higher risk profile versus the benchmark, with higher up capture ratios.

PORTFOLIO CHARACTERISTICS

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Yield To Maturity (%)	7.0%	10.0%	7.4%	7.4%	8.0%
Current Yield (%)	6.2%	8.7%	6.5%	6.6%	6.9%
Avg. Coupon (%)	5.8%	7.9%	6.0%	6.1%	6.4%
Average Life (yrs)	4.7	4.9	4.8	4.4	5.8
Effective Duration (yrs)	3.3	2.5	3.2	2.8	4.1
Number of Holdings	405	90	857	1,162	1,838

*Actual allocations may vary.

**Currency positions are excluded.

Portfolio composition may change at any time.

Source: Wilshire Atlas



MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND (NMHYX)

Sub-Adviser Sector and Regional/Country Allocations

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SECTOR ALLOCATIONS

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Industrials	70.7%	51.2%	70.4%	59.5%	87.5%
Financials	10.9%	6.4%	10.9%	8.8%	9.3%
Bank Loans	6.7%	30.8%	3.3%	11.0%	0.0%
Convertibles	0.0%	0.0%	0.0%	0.0%	0.0%
Short Term	6.4%	8.5%	11.5%	16.8%	0.0%
EMD	0.0%	0.0%	0.9%	0.3%	0.1%
RMBS	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	4.5%	0.0%	2.5%	2.4%	2.4%
Foreign	0.0%	0.0%	0.0%	0.0%	0.0%
Preferreds	0.0%	0.0%	0.0%	0.0%	0.1%
CMBS	0.0%	0.0%	0.0%	0.0%	0.0%
ABS	0.0%	0.0%	0.0%	0.0%	0.0%
Treasuries	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.8%	3.1%	0.5%	1.2%	0.6%
Total*	100.0%	100.0%	100.0%	100.0%	100.0%

QUALITY EXPOSURES

	Neuberger Berman	DDJ	Nomura	NMHYX	Benchmark
Cash Equiv.	6.4%	8.5%	11.5%	16.8%	0.0%
AAA	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	1.7%	0.0%	1.8%	1.2%	0.0%
BB	46.2%	1.1%	32.7%	27.1%	40.8%
B	38.0%	19.8%	39.5%	30.6%	42.9%
CCC or Below	7.4%	61.2%	14.1%	21.8%	16.1%
N/R	0.3%	9.4%	0.5%	2.6%	0.1%
Total*	100.0%	100.0%	100.0%	100.0%	100.0%

*The "Total" column may not sum exactly due to rounding.

Portfolio composition may change at any time.

Source: Blackrock



NORTHERN FUNDS

Appendix

Disclosure of additional information



APPENDIX: DISCLOSURES

- **Past performance does not guarantee future results.**
- Total return is based on net change in NAV, assuming reinvestment of all distributions. Returns for periods greater than one year are annualized. Sub-adviser returns are represented gross of Fund expenses. Returns of an index do not reflect the deduction of any management fees, transaction costs or other expenses. Direct investment in an index is not possible.
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