

NORTHERN FUNDS

SMALL CAP VALUE FUND (NOSGX)

As of 12/31/18

FUND COMMENTARY

The fourth quarter of 2018 brought the year to its end with plenty of drama. Rotations from equities to fixed income, cyclical to defensive, volatile to stable were evident in the quarter along with increased volatility, uncertainty in economic growth globally and earnings domestically and tighter credit conditions.

The Small Cap Value Fund returned -17.79%, beating its benchmark, the Russell 2000 Value Index, which returned -18.67%. Stock selection was positive in most sectors, but most meaningfully in health care, communication services, energy and industrials. Weaker stock picks were found among technology and materials stocks. Sector selection was a negative contributor to excess return, particularly an underweight to the outperforming utilities sector and a modest overweight to the deeply underperforming energy sector.

The quarter reflected an apparent flight to safety, not necessarily a flight to quality, as the difference in return between higher and lower quality, as rated by our proprietary quality model, was small. Wider differences in returns were seen between higher and lower volatility stocks. The most volatile quintile of stocks in the benchmark sank by more than 36% compared to the least volatile quintile which lost just over 11%. Nor did lower valuations help. Stocks in the Index with higher valuations outperformed stocks with lower valuations, based on either price to book or trailing earnings to price.

Going forward we will continue to seek reasonably priced, but profitable, small company stocks, and avoid lower quality companies, consistent with our long-term approach. We continue to apply our disciplined cost- and risk-efficient investment strategy, balancing return, risk and transaction costs to achieve intended objectives.

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 12/31/18				Annualized Returns					
FUND	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross Expense Ratio	Net Expense Ratio
Small Cap Value Fund	-17.79%	-13.68%	-13.68%	5.51%	3.71%	10.51%	9.22%	1.13%	1.00%
Russell 2000 Value Index	-18.67%	-12.86%	-12.86%	7.37%	3.61%	10.40%	9.35%		

*Inception Date- 04/01/94

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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