

NORTHERN FUNDS

SMALL CAP CORE FUND (NSGRX)

As of 12/31/18

FUND COMMENTARY

Small-capitalization stocks were deeply affected by the sell-off in the fourth quarter of 2018. Small caps again trailed larger capitalization stocks, as change in investor expectations of economic growth, earnings potential and exposure to credit tightening corresponded with a rotation to assets with lower perceived risk. Stocks with lower profitability, lower margins and higher volatility sold off more than the less risky, higher margin and more profitable alternatives within small caps. More generally, defensive and less cyclical sectors held up better.

The Small Cap Core Fund had a return of -18.41% outperforming its benchmark, the Russell 2000 Index, which had a return of -20.20%. Stock selection was positive in all but one sector, with the strongest picks among stocks within the lagging healthcare and consumer discretionary sectors. Only within real estate did stock selection contribute negatively to the return relative to the index. Sector selection was modestly positive, but as intended, not a substantial contribution to active returns.

More meaningful for positive contribution to excess return was the avoidance of lower quality stocks, as defined by our proprietary quality model. The lowest quality stocks underperformed the benchmark by almost 10%. Other measures of quality also fared similarly; stocks without earnings, negative returns on equity, or low margins lagged the benchmark substantially. Even more striking was the underperformance of stocks with the highest levels of volatility - during the quarter, the stocks in the highest quintile of volatility, as measured by the standard deviation¹ of returns over the last 24 months, trailed the benchmark by more than 12%. While the micro-cap stocks (capitalizations below \$350 million) in the benchmark were slightly weaker performers, the micro-cap holdings in the Fund held up better and contributed to positive performance compared larger capitalization stocks.

Going forward, we will continue to seek to provide diverse exposure to domestic small-cap stocks, including those within the smallest segments of the market, avoid stocks of companies with low-quality characteristics and maintain a disciplined process to manage active risk and transaction cost.

1. Standard Deviation is a statistical measurement of dispersion about an average, which depicts how widely returns varied over a certain period of time.

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 Core Fund	-18.41%	-10.21%	-10.21%	7.01%	4.55%	12.72%	6.72%	0.73%	0.65%
Russell 2000 Index	-20.20%	-11.01%	-11.01%	7.36%	4.41%	11.97%	7.57%		

*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, 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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