

Positive Long-Term Backdrop for Munis

Municipal bonds appear positioned to potentially benefit from the following long-term trends:

- **Demographics.** The graying of America, as exemplified by the looming retirement of the huge baby-boomer generation, implies rising demand for fixed-income investments.
- **Higher taxes.** The need to reduce trillion-dollar federal budget deficits will likely cause tax rates to rise, especially for upper-income taxpayers. Higher tax rates make tax-exempt income more desirable.
- **More savings.** Americans have responded to job insecurity and sharp reductions to their net worth by boosting savings. Given the magnitude of the damage to household balance sheets, we expect this trend to continue, thereby possibly funneling more money into financial assets like municipal bonds.
- **Less supply.** The introduction of Build America Bonds as part of the recent stimulus legislation could limit the issuance of traditional municipal debt.

Check out Northern Funds' tax-exempt funds below.

A Conservative Investment Approach

Northern Trust has built a tradition of strength and stability in investment management. Markets fluctuate over time, but we have remained steadfast in our disciplined, risk-managed investment philosophy.

Contact your Northern Trust Relationship Manager or the Northern Funds Center at **800-595-9111** to learn more about the Northern Funds family of mutual funds.

Morningstar Ratings™ as of 8/31/10

Fund Name (Ticker Symbol)	Morningstar Category	Overall Rating	3-Year Rating	5-Year Rating	10-Year Rating
			# of funds in category		
Arizona Tax-Exempt Fund ^{2,8,9,13} (NOAZX)	Municipal Single State Long	★★★★ 308	★★★★★ 308	★★★★★ 273	★★★ 268
California Tax-Exempt Fund ^{2,8,9,12,13} (NCATX)	Municipal California Long	★★★★★ 142	★★★★★ 142	★★★★★ 131	★★★★ 115
International Equity Fund ^{1,5} (NOIGX)	Foreign Large Blend	★★★★ 661	★★★★ 661	★★★★ 472	★★★ 265
Mid Cap Index Fund ^{1,10,11} (NOMIX)	Mid Cap Blend	★★★★ 366	★★★★ 366	★★★★ 306	–
Multi-Manager International Equity Fund ^{1,5} (NMIEIX)	Foreign Large Blend	★★★★ 661	★★★★ 661	–	–
Multi-Manager Mid Cap Fund ^{1,10} (NMMCX)	Mid Cap Blend	★★★★ 366	★★★★ 366	–	–
Small Cap Core Fund ^{1,6} (NSGRX)	Small Growth	★★★★ 664	★★★★ 664	★★★★ 547	★★★ 319
Tax-Exempt Fund ^{2,8} (NOTEX)	Municipal National Long	★★★★ 253	★★★★ 253	★★★★ 234	★★★★ 201

Past performance is no guarantee of future results. Ratings reflect fee waivers in effect; in their absence, ratings may have been lower.

Due to ongoing market volatility, the Funds may have experienced negative returns for the time periods shown. For complete performance information, please visit northernfunds.com. Mutual fund investing involves risk, including loss of principal. Please see page 2 for important fund-specific risks.



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- ¹ **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.
- ² **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.
- ³ **U.S. Government Guarantee:** U.S. Government guarantees apply only to the underlying securities of a fund's portfolio and not the fund's shares.
- ⁴ **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.
- ⁵ **International Risk:** International investing involves increased risk and volatility.
- ⁶ **Small Cap Risk:** Small capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Their stocks are subject to a greater degree of volatility, trade in lower volume and may be less liquid.
- ⁷ **Value Risk:** Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value.
- ⁸ **Tax-Free/AMT Risk:** Tax-exempt funds' income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax.
- ⁹ **Regional Investment Risk:** The geographical concentration of portfolio holdings in a fund may involve increased risk.
- ¹⁰ **Mid Cap Risk:** Mid-capitalization stocks typically carry additional risk, since smaller companies generally have higher risk of failure and, historically, their stocks have experienced a greater degree of volatility.
- ¹¹ **Index Fund Risk:** The performance of the Fund is expected to be lower than that of the Index because of Fund fees and expenses. It is important to remember that there are risks associated with index investing, including the potential risk of market decline, as well as the risks associated with investing in specific companies.
- ¹² **Mortgage-Backed Securities Risk:** Mortgage-backed investments involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, the Fund's performance may be more volatile than if it did not hold these securities.
- ¹³ **Non-Diversified Risk:** The Fund invests in a smaller number of stocks than the average mutual fund. The change in value of a single holding may have a more pronounced effect on the Fund's net asset value and performance than for other funds.

Star ratings are based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The overall rating is a weighted average of the 3-, 5-, and 10-year (if applicable) returns. 5 stars = top 10% of funds in an asset category; 4 stars = next 22.5% of funds; 3 stars = next 35%; 2 stars = next 22.5% and 1 star = next 10%. A fund must be in existence three years to be rated. Ratings are subject to change monthly.

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Please carefully read the prospectus and summary prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds before investing. Call 800-595-9111 to obtain a prospectus and summary prospectus, which contains this and other information about the funds.

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NF FCT STAR (9/10)