

Northern Funds TAX-EXEMPT FUND

4Q2011

NOTEX/FIXED INCOME

OVERALL MORNINGSTAR RATING™



among 227 municipal national long funds derived from a weighted average of the fund's 3-, 5- and 10-year risk-adjusted returns as of 12/31/11*

FUND FACTS

Fund Objective: Current Tax-Exempt Income

Inception Date: April 1, 1994

Ticker Symbol: NOTEX

Gross Expense Ratio: 0.86%

Net Expense Ratio: 0.45%¹

Dividend Schedule: Monthly

Benchmark: Barclays Capital Municipal Bond Index

Morningstar Category: Municipal National Long

FUND CHARACTERISTICS

Total Net Assets: \$1.1 billion

Number of Holdings: 180

30-Day SEC Yield: 3.06%

Tax-Equivalent 30-Day SEC Yield: 4.71%²

Modified Duration: 5.2 years

Average Maturity: 16.3 years

FUND STRATEGY

- Maintain a dollar-weighted average maturity range, under normal circumstances, between 10 and 30 years. This segment of the municipal market, while potentially more volatile, also may provide higher yields than shorter-term securities.
- Invest in high-quality securities, primarily investment-grade debt.
- Select investments on the basis of their relative value with a focus on total return.

PERFORMANCE as of 12/31/11

FUND	ANNUALIZED						
	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
FUND	1.78%	11.85%	11.85%	7.99%	4.95%	5.12%	5.45%
BARCLAYS CAPITAL MUNI BOND INDEX ³	2.12%	10.70%	10.70%	8.57%	5.22%	5.38%	5.93%
MORNINGSTAR CATEGORY AVG MUNI NAT'L LONG	2.14%	10.64%	10.64%	9.59%	3.81%	4.46%	—

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 Advisor has agreed to reimburse certain expenses of the Fund. The contractual reimbursement arrangement is expected to continue until at least December 31, 2012. After this date, the contractual arrangements may be terminated if it is determined to be in the best interest of the Fund and its shareholders. In the absence of fee waivers, yield, total return, growth since inception and dividends would have been reduced. Total return is based on net change in NAV assuming reinvestment of distributions. The 30-day SEC yield more closely reflects the current earnings of the Fund than the total returns.

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.

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.

¹ The Net Expense Ratio, as reported in the most recent prospectus, includes contractual expense reimbursements that, if not extended, will end on December 31, 2012.

² Tax-equivalent yields are based on an assumed tax rate of 35.0% for national municipal funds. Please see back page for calendar year returns and index definitions.

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

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. The Tax-Exempt Fund received 2 stars for the 3-year rating among 227 municipal national long funds, 4 stars for the 5-year rating among 211 funds and 4 stars for the 10-year rating among 181 funds.

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Managed by
Northern Trust

NOT FDIC INSURED

May lose value/No bank guarantee

MATURITY DISTRIBUTION

Maturity Range	Fund
0 - 1 Year	9.5%
2 - 5 Years	9.8%
6 - 10 Years	6.1%
11 - 20 Years	30.4%
21 - 30 Years	36.9%
30+ Years	7.3%
TOTAL	100.0%

QUALITY DISTRIBUTION

Quality Rating	Fund	Benchmark ³
AAA	26.7%	13.2%
AA	44.2%	54.2%
A	12.2%	24.1%
BBB	1.4%	8.5%
SP1+/MIG1	5.9%	0.0%
Cash Equivalents	9.6%	0.0%
TOTAL	100.0%	100.0%

SECTOR WEIGHTINGS

Economic Sector	Fund	Benchmark ³
Revenue	66.8%	57.9%
General Obligation	15.3%	24.7%
Short-Term	9.6%	0.0%
Insured	5.5%	10.9%
Government-Backed	2.8%	6.5%
TOTAL	100.0%	100.0%

PORTFOLIO MANAGER



TIMOTHY T.A. MC GREGOR | Began career in 1985
With Northern Trust since 1989

Mr. McGregor received a B.S. in economics with a minor in East Asian studies from Indiana University. He is a CFA charterholder.

CALENDAR YEAR RETURNS

	2011	2010	2009	2008	2007
FUND	11.85%	0.21%	12.36%	-1.79%	2.97%
BARCLAYS CAPITAL MUNI BOND INDEX ³	10.70%	2.38%	12.91%	-2.47%	3.36%
MORNINGSTAR CATEGORY AVG MUNI NAT'L LONG	10.64%	1.65%	17.30%	-9.45%	1.27%

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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.

All data is as of date indicated and subject to change.

³ **Barclays Capital Municipal Bond Index** is an unmanaged index of investment grade (Baa3 or better) tax-exempt bonds with a remaining maturity of at least one year. It is not possible to invest directly in an index.

Modified Duration: Duration is a measure of a bond fund's sensitivity to changes in interest rates. The Fund's duration is calculated using the modified duration formula.

Quality Distribution: Credit quality ratings are based on converting the available Moody's, Standard & Poor's and/or Fitch ratings to a common numerical basis and averaging that result. If none of these three 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). The Standard & Poor's short-term municipal rating of SP1 reflects a strong capacity to pay principal and interest (an issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation). The Moody's short-term municipal rating of MIG1 denotes superior credit quality (excellent protection is afforded by established cash flows, highly reliable liquidity support or demonstrated broad-based access to the market for refinancing). 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.

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 contain this and other information about the funds.



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