

Waking Up in Recovery

NORTHERN TRUST'S CHIEF ECONOMIST PAUL KASRIEL EXAMINES HOW THE ECONOMIC MELTDOWN MIGHT SHAPE THE RECOVERY

The key lessons from one of the largest economic meltdowns in recent memory can help us as we move forward, according to Paul Kasriel, chief economist for Northern Trust.

Among the most respected economists in the financial community, he shares what he sees about prospects for the economy as we move through the recovery:

We'll need a more humble Federal Reserve. We've learned that the Federal Reserve can't control everything, and when it tries to control everything, it leads to the kind of meltdown we had. The Federal Reserve should not be there to smooth out every bump in the road for Wall Street or Main Street. If the Fed acted in a more neutral way, we would likely not see these asset bubbles develop, nor would we see the prices of goods and services run away either.

Investors will need to do their own homework. Investors thought they were getting something for nothing by relying on the rating agencies. But the rating agencies are paid by the issuers of bonds — the borrowers — not by investors. Investors need to do their own credit research or hire someone to do it.

The economy still faces significant headwinds. The economic recovery may be very uneven and on average subpar for at least a year and maybe a little bit more. This is particularly apparent in the financial sector. It's stabilized now, but there is another problem coming. There likely will be more commercial mortgage losses and probably more losses related to credit card debt and auto loan debt. While many lenders are adequately capitalized today, six months or a year from now, with additional losses, they may be undercapitalized. And without capital, the private financial sector cannot create credit in a normal way.

Consumers are going to start to spend less relative to their income. This doesn't necessarily mean total spending in the economy has to go down, but there will be periods of adjustment, which will take time. And certain areas, like car and truck sales, are not going to come back for a long time.

The recovery may be another jobless one, much like the prior two recoveries. This one may be even worse. The economy isn't growing fast enough to re-employ all the millions who have lost their jobs and to

employ new people entering the workforce. The workweek is at a record low of 33 hours. Even if businesses see a pickup in demand, employers could simply extend the workweek of their current workforce.

There may be a shift in emphasis among emerging market economies toward more domestic demand. There are rising numbers in the middle class in these emerging economies. Typically, when you get into this category, you tend to consume and spend more. Thus, the emerging markets are likely to be where most of the action will take place over the next 10 years.

Shifting in emerging economies may lead to a shift in the U.S. economy. We may move away from as much consumer spending and housing toward more exports and capital spending and research and development to support those export industries.

To read more Paul Kasriel commentary, go to northerntrust.com/econtrarian.

Recover & Rebalance

Regularly rebalancing your portfolio is a hallmark of prudent investing. During times of tumult, this becomes even more important.

Even if your own risk tolerance and asset allocation strategies remain the same, your investments may no longer reflect your desired formulas.

Contact your financial advisor for a review of your portfolio to make sure that it still reflects your strategy.

Northern Funds does not offer investment advice.

NORTHERN TRUST WINS BEST BANK AWARD

The Financial Times Group has named Northern Trust as the best Private Bank in North America. Northern Funds are managed by Northern Trust.

Professional Wealth Management and *The Banker* magazines presented the award, one of several Global Private Banking inaugural awards, on Oct. 27, 2009, in Geneva.

Winners were selected from the private banks and wealth managers who entered based on an examination of quantitative and qualitative aspects of the private banking/wealth management business.

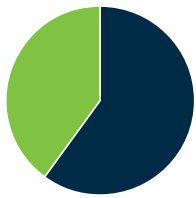
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New Fixed Income Fund Spans Broad Spectrum

The new Northern Multi-Manager High Yield Opportunity Fund is designed to provide competitive performance in a broad range of market environments.

The highly diversified, opportunistic Fund can invest in high-yield corporate securities as well as foreign bonds, emerging markets, bank loans, convertibles, preferreds, mortgages, REITs, equities, munis and closed-end high yield funds. Despite the Fund's opportunistic investment strategy, it can be used as the primary high yield allocation in portfolios.

NORTHERN MULTI-MANAGER HIGH YIELD OPPORTUNITY FUND SUB-ADVISERS



These are target allocations within the Fund.

The multi-manager fund enlists two sub-advisers:

- Stone Harbor employs a relative-value strategy that will provide more consistent characteristics to the traditional high yield sectors.
- Loomis Sayles uses an opportunistic high yield strategy that will provide exposure to out-of-benchmark sectors.

To learn more, go to northernfunds.com.

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.

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NORTHERN FUNDS 2009 TAX FORM SCHEDULE

WHAT?	WHEN?	WHO AND WHY?
Year-end Statements	January 8	To all shareholders.
Corporate DRD Letter	January 22	To corporate shareholders who may be eligible for the dividends received deduction (DRD).
1099-DIV	January 31*	To shareholders in nonretirement accounts who received taxable distributions in 2009.
1099-Q	January 31*	To shareholders in 529s or Education Savings Accounts (ESAs) who redeemed or exchanged shares in 2009.**
1099-B	January 31*	To shareholders (excluding money market funds and retirement accounts) who redeemed or exchanged shares in 2009. (Includes average cost information if applicable.)
1099-R	January 31*	To shareholders who received Individual Retirement Account (IRA) distributions in 2009.
1099-INT	January 31*	To shareholders in nonretirement accounts who received tax-exempt distributions in 2009.
Average Cost Statement	January 31	To all shareholders (excluding money market funds and retirement accounts) who redeemed shares in 2009. Average cost information is reflected on the 1099-B forms.
1042-S	March 15	To shareholders with foreign tax withholding.
5498-ESA	April 30	To ESA shareholders who made contributions for 2009.
5498	April 30	To IRA shareholders who made contributions for 2009, including rollover contributions.

*Shareholders in the Global Real Estate Index Fund and the Multi-Manager Global Real Estate Fund won't receive their tax information until February because Real Estate Investment Trusts (REITs) often don't provide complete tax information until after the calendar year-end.

**Northern Funds does not offer 529's.

If a date falls on a nonbusiness day or holiday, the Internal Revenue Service (IRS) due date is the next business day. For example January 31, 2010, is a Sunday. Therefore, the IRS due date is Monday, February 1, 2010.

Note: Northern Funds does not provide tax reporting for: corporate accounts, institutional accounts and Northern Trust trust accounts.

RMD REQUIREMENT RETURNS IN 2010

Internal Revenue Service requires all those with Traditional, SEP and Simple IRAs to take a Required Minimum Distribution (RMD) each year from the time you reach 70½.

Legislation waived this requirement for the 2009 tax year; however, all RMD rules will be effective for the 2010 tax year.

If you reached 70½ in 2009, you must take your first distribution by December 31, 2010. Failure to do so can result in stiff penalties. Watch your mail for more information on RMDs. To calculate your RMD, go to northernfunds.com/iraforms.

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

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