

Northern Income Equity NOIEX

Morningstar Rating



Strategy

Manager Jackie Benson looks for companies that boast both good growth potential and relatively high-quality convertible bonds that trade at a discount to her estimate of their value. As a result, she steers clear of most issues in speculative corners of the convertible market, such as tech and biotech. Although she sometimes holds a significant equity stake, she has kept a lid on volatility by capping individual stock holdings at 2% of assets and convertible issues at 3%. She also keeps the fund's sector weights closely in line with those of the S&P 500 Index.

Management

Jackie Benson has managed this fund since March 2007. She joined Northern Trust in 2004 as an analyst for the fund's previous manager, Ted Southworth. Prior to joining Northern, Benson was a senior high-yield analyst within Banc One Capital Markets. Benson has a dedicated analyst supporting the fund and works closely with Northern's broad team of equity analysts.

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Year	Total Return (%)	+/-Category
2011	2.18	2.29
2010	15.99	4.16
2009	32.20	8.07
2008	-30.82	-2.82

Data through 12-31-11

Morningstar's Take | 12-20-11 | by David Falkof

This fund strikes a good balance.

Northern Income Equity's atypical approach holds appeal.

While most moderate-allocation funds hold stocks and bonds, manager Jackie Benson invests this fund's assets in stocks (62% as of Oct. 31, 2011) and convertibles securities (36%). She likes convertible securities (bonds or preferred stock that can later be exchanged for common shares) because they offer similar upside potential to stocks but have less downside risk. Relative to straight bonds, though, convertibles can be more volatile. As a result, the fund has a high Morningstar Risk rating (a volatility measure that punishes poor downside performance) relative to its more-traditional category peers.

Benson's company-specific research primarily drives the fund's split between stocks and convertibles. For instance, if she likes a company but has concerns about the valuation of its common stock, she will consider the convertible bond instead. That's led her to own convertible bonds of several cyclical names, such as industrial manufacturers General Cable and Kaiser Aluminum.

Across the portfolio, Benson takes a classic value approach. She looks for cash-flow-generating companies with strong balance sheets that are trading below their estimated intrinsic values. For example, in early 2011 Benson bought the common stock of video game developer Activision Blizzard ATVI. She likes the company's dominant lineup of games and consistent cash flows.

Benson aims to deliver equitylike returns with less volatility, and the results have been good so far. Since she took over the fund in March 2007, its 1.6% annualized gain through Dec. 15, 2011, tops its benchmark, the S&P 500, by 2.7 percentage points and outpaces nearly two thirds of its peers. It's also been modestly less volatile than the benchmark as measured by standard deviation.

All told, this is an attractive option for investors seeking a less volatile approach to equities.

NORTHERN INCOME EQUITY FUND

Inception 4/1/1994

AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/11				TOTAL ANNUAL OPERATING EXPENSE RATIOS	
1-Year	5-Year	10-Year	Since Inception	Gross	Net
2.18%	2.71%	6.12%	7.85%	1.23%	1.00%

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.

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.

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.

Interest Rate Risk: Increases in prevailing interest rates will cause fixed-income securities, including convertible securities, held by the Fund to decline in value.

The portfolio composition of each Northern Fund is subject to change at any time. As of December 31, 2011, the Income Equity Fund's net assets were comprised of the following securities mentioned in the article: General Cable, 0.83%; Kaiser Aluminum, 1.18%; and Activision, 1.45%.

Important Morningstar Information: As of 12/31/11, Northern Income Equity Fund received a 4-star rating for overall performance among 843 moderate allocation funds, 5 stars for the 3-year rating among 843 funds, 3 stars for the 5-year rating among 736 funds and 4 stars for the 10-year rating among 393 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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This reprint is not intended as a recommendation to buy, hold or sell securities issued by the companies mentioned in the article.

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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