

Northern Tax-Exempt NOTEX

Morningstar's Take | 01-26-10 | by Jonathan Rahbar

A high price tag is the only complaint with this otherwise solid mutual fund. Northern Tax-Exempt has several great features and one main drawback.

This fund offers a number of attractive qualities that have made it one of the sturdier options in the muni national long category. Among them are experienced management, a solid approach, and a portfolio filled with high-quality municipal bonds.

Tim McGregor has managed the fund since the end of 1998. His team of four portfolio managers and three muni credit analysts runs the portfolio with a focus on quality, shunning some of the shakier sectors of the muni market, like airlines. As of late, more than 92% of bonds in the portfolio were rated A or better, compared with the category average of 78%. McGregor rarely makes big calls on the direction of interest rates, which can have a big impact on bond prices, but tends to keep the fund's duration—a measure of interest-rate sensitivity—lower than the typical peer.

Management's higher-quality emphasis may leave the fund susceptible to bouts of underperformance, as was the case in 2009 when edgier rivals posted better returns. That isn't always the case, as in 2008 when the credit freeze toppled global markets and the fund lost only 1.8%, which was one of the best showings in the group. A big help in generating those strong returns came when insured munis in the portfolio held their ground because of the team's thorough research on the underlying credit of the original issuers despite bond insurers Ambac Financial ABK and MBIA MBI disclosing devastating losses. That meticulous process has rewarded investors that have shared management's slow and steady approach with three, five-, and 10-year returns that land in the category's top quartile.

For all of the fund's strong points, a lofty 0.75% price tag, which is meaningfully higher than the 0.52% median for no-load long-term muni funds, detracts from its appeal. Expenses could be a fair amount lower, but investors have a solid and proven option here.

Jonathan Rahbar is a mutual fund analyst with Morningstar.

Morningstar Rating

★★★★

Kudos

- Proven management team.
- Portfolio of quality munis can help during challenging times.
- Strong returns over long and short periods.

Risks

- High price tag.
- May lag when riskier bonds perform well.

Strategy

This fund doesn't make huge calls on the direction of interest rates or dip into riskier areas of the muni market. The team's focus on researching the underlying credit of issuers and understanding the potential risks is a major key. The vast majority of the portfolio is composed of bonds rated A or better, and the fund's duration is typically lower than the category average.

Management

Tim McGregor has been at Northern Trust since 1989 and began managing the fund in 1998. Four additional portfolio managers contribute to the strategy and three muni credit analysts aid the management team.

Role in Portfolio

Core

Northern Tax-Exempt NOTEX

Year	Total Return (%)	+/-Category
YTD	0.19	-0.30
2009	12.37	-4.93
2008	-1.80	7.65
2007	2.95	1.68
2006	4.21	-0.36

Data through 12-31-09

NORTHERN TAX-EXEMPT FUND

Inception 4/1/1994

AVERAGE ANNUAL TOTAL RETURNS AS OF 3/31/10				TOTAL ANNUAL OPERATING EXPENSE RATIOS	
1-Year	5-Year	10-Year	Since Inception	Gross	Net
9.38%	4.33%	5.39%	5.37%	0.85%	0.75%

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.

Performance calculations reflect voluntary fee waivers in effect. In the absence of fee waivers, 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 Net Expense Ratio includes voluntary expense reimbursements by Northern Funds' investment advisers that may change or end at any time.

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.

Important Morningstar Information: As of 3/31/10, Northern Tax-Exempt Fund received a 4-star rating for overall performance among 251 Muni National Long funds, 4 stars for 3-year performance among 251 funds, 4 stars for 5-year performance among 228 funds, and 4 stars for 10-year performance among 200 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 = 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.

Northern Funds are not available for distribution outside the United States.

©2010 Morningstar, Inc. All rights reserved. Morningstar and/or its content providers are the proprietors of this information; do not permit its unauthorized copying or distribution; do not warrant it to be accurate, complete or timely; and are not responsible for damages or losses arising from its use.

This reprint is not intended as a recommendation to buy, hold or sell securities issued by the companies mentioned in the article.

You should consider the Funds' investment objectives, risks, charges and expenses carefully before investing. You may obtain a prospectus with this and other information about the Funds by visiting northernfunds.com or by calling 800-595-9111. You should read the prospectus carefully before investing.



Managed by
Northern Trust

NOT FDIC INSURED

May lose value/No bank guarantee

Shares of Northern Funds are distributed by Northern Funds Distributors, LLC, Three Canal Plaza, Suite 100, Portland, ME, not affiliated with Northern Trust.