

Northern Intermediate Tax-Exempt NOITX

Morningstar's Take | 07-09-10 | by Jonathan Rahbar

Look to this offering for a steadier ride in munis.

There's something to be said for Northern Intermediate Tax-Exempt's careful approach.

This fund takes few chances. Manager Tim McGregor generally runs a higher-quality portfolio than most peers. The fund currently holds over three fourths of assets in bonds rated AAA and AA, while its typical peer holds closer to 60% in those tiers. McGregor doesn't dabble in some of the notoriously volatile areas of the muni market, such as airline or tobacco bonds, but he'll also avoid sectors that other managers are more sanguine toward. Lately, he's steered clear of bonds financing projects and facilities that depend on government appropriations because there's a risk state and local governments could cut their support as they strain to balance their budgets.

If that caution left some income and return on the table in 2009 and early 2010's recovery, it should assuage fears that municipalities are struggling through the worst economic climate in decades. Don't expect to see any derivatives or leverage in the portfolio, either. Some managers use these tools to boost yield, but they can cause trouble during rough markets like 2008's. In fact, the fund's straightforward, high-quality approach helped keep it in the black that year, even as roughly two thirds of its peers lost money.

McGregor's caution shouldn't be mistaken for inaction, however. He looks for bonds with appealing structural traits, such as those with high coupons and short call dates, and picks spots on the yield curve where demand appears lax. He'll also trade more quickly to capture small price movements; the fund's annual turnover is well over 100%, quadrupling that of the category norm. Higher transaction costs are a danger of that approach, but McGregor says he carefully manages relationships with a select group of brokers.

In all, this strategy holds appeal for conservative types, but it's not yet competitively priced compared with no-load alternatives.

Kudos

- Proven management team.
- Portfolio of quality munis can help during challenging times.

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, so management's yield curve positioning could play a bigger role in how the fund fares.

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 a trio of muni credit analysts aid the management team.

Role in Portfolio

Unavailable

Northern Intermediate Tax-Exempt NOITX

Year	Total Return (%)	+/-Category
2009	8.97	-2.44
2008	0.40	2.72
2007	3.47	0.72

Data through 12-31-09

NORTHERN INTERMEDIATE TAX-EXEMPT FUND

Inception 4/1/1994

AVERAGE ANNUAL TOTAL RETURNS AS OF 3/31/11				TOTAL ANNUAL OPERATING EXPENSE RATIOS	
1-Year	5-Year	10-Year	Since Inception	Gross	Net
0.98%	3.59%	3.92%	4.37%	0.86%	0.75%

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