

# Northern Intermediate Tax-Exempt NOITX

This conservative muni fund is looking more attractive.

2-27-12 | by Kathryn Spica, CFA

Northern Intermediate Tax-Exempt takes a cautious approach.

Manager Tim McGregor takes a straightforward approach to managing this municipal-bond fund. He eschews derivatives and leverage that peers occasionally dabble in to juice returns. His team of four portfolio managers and four analysts avoids volatile municipal sectors such as tobacco bonds and generally keeps away from health care bonds as a cautious response to budget cuts in the sector over the years. As of December 2011, the fund dedicated only 0.7% of assets to health-care bonds, well below the 10.0% muni-national intermediate-category median. The team also more recently shied away from local government bonds, preferring state-sponsored bonds due in part to their lower reliance on property taxes.

In addition to liking bonds backed by more reliable streams of income, the team is cautious in terms of credit quality. As of December 2011, the fund held roughly 26.3% of assets in bonds rated AAA, more than the 15.7% and 17.9% stakes of its Barclays Capital Intermediate Municipal Bond Index benchmark and average rival, respectively. A conservative credit profile helped the team steer clear of some of the troubles plaguing municipal bonds in recent years. In 2008, the fund's 0.4% gain proved better than 75% of its peers. However, its downside protection isn't flawless. A longer duration and a high-quality bent hurt the fund during late 2010's muni-bond sell-off, and its 1.0% gain for the year landed below 87% of its peers. This cautious approach has helped over the long-term. Since McGregor took the lead in November 2000 through January 2012, the fund's 4.9% annualized return ranks just above its peer group average, on an absolute and risk-adjusted basis.

Even so, in 2012 the fund cut its expense ratio by 28 basis points to 0.45%, giving it a head start over most of its no-load peers going forward. All told, it's comforting that the team hasn't had to load up on riskier assets to overcome its expenses so far, and the now cheaper price tag makes the fund an attractive option.

## Strategy

The team focuses on the underlying credit quality and potential risks of municipal-bond issuers, aiming to find pockets of inefficiency in bond prices. The team typically avoids the more volatile sectors of the municipal-bond market, such as tobacco bonds, and also stays away from derivatives and leverage. The portfolio has a higher-quality tilt, with the vast majority of its bonds rated AA or better.

## Management

Tim McGregor joined Northern Trust in 1989 and has managed this fund since 1998. Four additional portfolio managers and four dedicated municipal credit analysts contribute to the strategy as well as McGregor's other charge, Northern Tax-Exempt NOTEX.

## Role in Portfolio

Supporting Player. This muni-intermediate bond fund could complement a diversified portfolio.

## Fund Performance NOITX

Year	Total Return (%)	+/-Category
2011	10.10	1.10
2010	1.04	-1.18
2009	8.97	-2.44
2008	0.40	2.72

Data through 12-31-12

# NORTHERN INTERMEDIATE TAX-EXEMPT 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
13.12%	5.19%	4.67%	4.82%	0.87%	0.45%

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.

**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.

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

©2012 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.

**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.**



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 04101, not affiliated with Northern Trust.