INTERNATIONAL INVESTING DEMYSTIFIED

TRUST NORTHERN FOR WHAT REALLY MATTERS

NORTHERN FUNDS®

Managed by Northern Trust

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Before investing, you should carefully read the prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds. A prospectus with this and other information can be obtained at 800-595-9111 or northernfunds.com.

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When you limit your stock investments to the United States, you limit your growth potential. Although the United States houses the world's largest stock market, more than 61% of the world's stock market capitalization is located outside the United States.[1] Foreign stock markets offer a world of opportunities, including:

- The established markets of Western Europe and Japan
- The expanding markets of Asia
- The emerging markets of Mexico, South America and Eastern Europe

Expand your investment horizons

Yet, many investors are reluctant to invest overseas — concerned about market and currency fluctuations and the political upheaval reported in the media.

Although these concerns are valid, there is another reality: Some of the best long-term investment opportunities may come from foreign stock markets. Just as diversifying within the U.S. market may lessen your volatility and limit risk, diversifying geographically may open the doors to powerful risk/reward benefits.

We have identified seven common myths associated with international investing — half-truths rooted in outdated information, misconceptions and the "fear of the unknown." In dispelling these myths, you can open the borders of your investment portfolio.

[1] *Source: The World Bank; 2005 data*

MYTH 1:

THE BIGGEST, MOST SUCCESSFUL COMPANIES ARE IN THE U.S.

REALITY: MANY OF THE BEST-KNOWN BRANDS ARE HEADQUARTERED OVERSEAS

In terms of corporate might and prosperity, the United States remains the model for the rest of the world. But other countries that have mimicked or adopted our brand of capitalism are home to many of the most successful corporations, delivering products and services used throughout the world.

A world of exposure

In your daily travels, you probably come across several companies with headquarters outside the United States.

TEN COMMON CONSUMER PRODUCTS PRODUCED BY FOREIGN COMPANIES*

The reality is that Americans purchase $2 trillion worth of "foreign" products a year, often without even realizing it.

Product/Brand	Company	Headquarters
Cell phone	Nokia	Finland
Playstation (electronic game)	Sony	Japan
Shell gasoline	Shell	Netherlands
Dove soap	Unilever	Great Britain
Aspirin	Bayer	Germany
LCD TV	Samsung	South Korea
Cosmetics	L'Oreal	France
Edy's Ice Cream	Nestle	Switzerland
Purse	Gucci	Italy
Sonata (car)	Hyundai	South Korea

**This is not intended as an offer or solicitation to buy or sell any individual securities.*

And you probably don't give it a second thought. For example:

- Fill up your gas tank at a Shell station, and you're doing business with a Netherlands-based company.
- Feed your dog a bowl of Purina dog chow, and you're giving your pet a meal from a Swiss-based company.
- Pay the premium on your Prudential life insurance policy, and you're purchasing a product from a company based in Britain.
- Make a call on your LG cell phone, and you're using a South Korean product.

So by expanding your portfolio to include international holdings, you're potentially investing in companies that provide the products you enjoy and rely on every day.

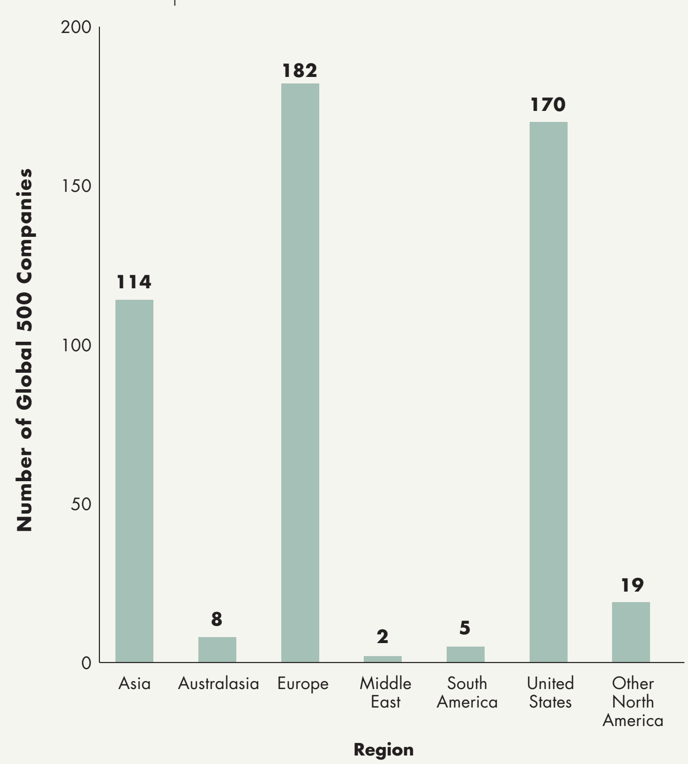
A global marketplace

We continue to see evidence that the world's economies and marketplaces are intertwined:

- Many well-known products, those Americans use every day — from automobiles, to televisions to medications — are manufactured by companies headquartered outside the United States.
- Nearly two-thirds of the companies included in the Fortune Global 500 are non-U.S. companies, and 11 of the top 20 corporations on the list are foreign-based.
- Many of the largest, most successful U.S.-based companies have operations throughout the world; and many of the most successful foreign-based companies have a strong presence in the United States.
- Large U.S.- and foreign-based companies regularly join forces to create multinational conglomerates.

CORPORATE HEADQUARTERS THROUGHOUT THE WORLD

The world's largest corporations are scattered throughout the globe. For example, the United States is home to 170 companies included in the Fortune Global 500. The remaining 330 members of the Global 500 are headquartered in foreign countries, primarily those of Europe and Asia.



This chart shows the regional breakdown of the headquarters for the Fortune Global 500 companies. Source: Fortune, 2007

MYTH 2:

FOREIGN FINANCIAL REPORTING AND ACCOUNTING REGULATIONS ARE WEAK

REALITY: REPORTING AND ACCOUNTING STANDARDS ARE ROBUST IN MANY COUNTRIES, ESPECIALLY DEVELOPED ONES

Government oversight of corporate financials and shareholder demands for corporate accountability and disclosure are not confined to the borders of the United States. Foreign governments in developed countries have implemented regulations designed to standardize performance and accounting data.

For example, the European Union requires that all publicly-traded companies use International Financial Reporting Standards (IFRS), a collection of financial and accounting reporting standards developed by the International Accounting Standards Board (IASB).[1] In recent years, the Financial Accounting Standards Board (FASB) and IASB have worked together to eliminate the major differences between the two standards.[2]

It remains true that emerging-market countries generally have weaker accounting and financial reporting regulations than developed countries. There may be little financial information about issuers in these countries, making it difficult to assess the prospects or risks of investment in such issuers. Many emerging-market companies, however, have adopted U.S. GAAP (Generally Accepted Accounting Principles) standards, governed by the FASB.[3] These companies have taken steps to enhance and improve their self-governance and public reporting, knowing that investors throughout the world insist on such information.

[1] *Source: Journal of Accountancy, September 2004*
[2] *CFO.com, "IFRS or GAAP: Take Your Pick?" May 3, 2007*
[3] *Source: Northern Trust research, "Emerging Markets Investing: Efficiently Adding Emerging Markets to a Global Portfolio," January 2007*

MYTH 3:

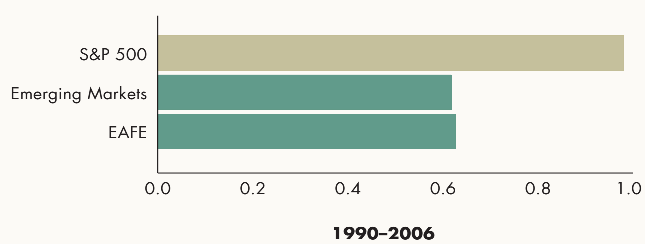
PERFORMANCE OF THE WORLD'S MARKETS IS HIGHLY CORRELATED

REALITY: AT TIMES, THE DIVERGENCE IN RETURNS IS SIGNIFICANT

Skeptics of international investing argue that the globalization of the world's economies has led to a greater correlation between U.S. stocks and international stocks. While it is true that correlation has increased over time, the world's stock markets do not always move in tandem. There is still significant divergence in returns, especially in comparison to emerging-market stocks.

INTERNATIONAL MARKET CORRELATION TO S&P 500

Diversification works best when the portfolio components are non-correlated, or have different performance patterns. International and U.S. stocks have a history of non-correlated returns. Although the correlation trend has tightened in recent years, the long-term pattern is one of non-correlated performance.



This chart shows the relationship between the returns for the S&P 500 Index relative to other asset classes. The lower the number for the other asset classes, the more non-correlated the returns in relation to the S&P 500.

Source: Northern Trust, MSCI Barra, Standard & Poors

MYTH 4:

WHEN THE U.S. ECONOMY IS STRONG, THERE'S NO NEED TO INVEST GLOBALLY

REALITY: CURRENCY FLUCTUATIONS CAN HAVE A SIGNIFICANT IMPACT ON RETURNS

The changing value of world currencies may be the most misunderstood and, hence, the most frightening aspect of investing abroad. But currency values can have the potential to significantly influence returns for U.S.-based investors.

Exchange rates influence returns

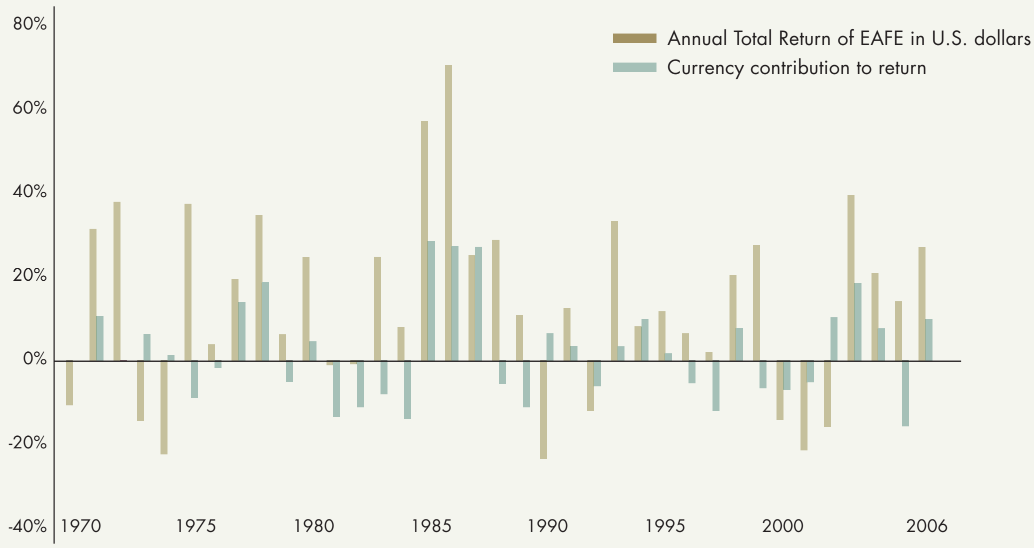
In every country, prices are expressed in units of currency, typically issued by the country's central bank. The value of the currency though only can be judged against an external reference, usually the currency's exchange rate.

This exchange rate becomes another element for U.S.-based investors to consider because the value of a company's stock depends on the exchange rate between the country in which the stock is domiciled and the U.S. dollar. Exchange rates can fluctuate constantly. Many emerging-market countries in particular are prone to hyperinflation and rapid currency devaluation, presenting increased risk from adverse movements in exchange rates.

As history has demonstrated, currency exposure is a significant component of the overall return of international investments. Approximately 2% of the total annualized performance of the MSCI EAFE, or half the cumulative return since 1969, can be attributed to currency movement.

CURRENCY COUNTS

The changing value of world currencies versus the U.S. dollar can have a significant impact on returns from foreign stocks. When the U.S. dollar is relatively weak, the currency contribution to performance is greater; and when the U.S. dollar is relatively strong, the currency contribution is weaker.



This chart shows the currency component of the annual returns for the MSCI EAFE Index from 1970 through 2006.
Source: Northern Trust

Putting a weak U.S. dollar to work

When you invest overseas, currency exchange rates may influence your rate of return. At times, currency fluctuations actually may work in your favor, and at other times work against you. For example, when the U.S. dollar rises against foreign currencies, you lose value because your foreign currency purchases fewer dollars. Conversely, returns from foreign stocks issued in foreign currencies increase when the U.S. dollar declines in value versus that currency. When you convert that foreign currency to U.S. dollars, you are able to purchase more dollars.

Therefore, when the U.S. dollar is weak, foreign stocks may provide better returns than domestic stocks even though the U.S. economy is strong. Thus, foreign stocks may offer you an attractive complement to your domestic portfolio.

MYTH 5:

THE U.S. MARKET CONSISTENTLY PERFORMS BETTER THAN FOREIGN MARKETS

REALITY: FOREIGN MARKETS HAVE OFTEN OUTPERFORMED THE U.S. MARKET

As U.S.-based investors, our perspective sometimes becomes skewed. We hear on radio broadcasts the daily "stock market" report, which usually consists of the point change for the Dow Jones Industrial Average (DJIA) or the S&P 500 Index.

From a global perspective, the U.S. market generally isn't always the barometer of worldwide stock performance. Often, stock markets throughout the world have outperformed U.S. stocks. So when you limit your investment portfolio to domestic stocks, you may be limiting your return potential.

Returns differ

Over the 30 years ending December 31, 2006, the average return of the MSCI EAFE Index, a leading benchmark for the stock performance of developed markets outside the United States*, has been almost the same as that of the S&P 500. However, EAFE significantly outperformed the S&P 500 during considerable stretches of time during those 30 years. For example, EAFE outperformed the S&P 500 for five years in a row during the 1980s (1983 to 1987). More recently, EAFE's annual returns have exceeded those of the S&P 500 for each of the last five calendar years, with an annualized return of 14.98% — more than double that of the S&P 500.

TIME PERIOD IS A FACTOR IN MSCI EAFE VERSUS S&P 500

Foreign stocks have strongly outpaced U.S. stocks in the last 5 years.

	S&P 500	MSCI EAFE (Net Dividends)
5 YR	6.19	14.98
10 YR	8.42	7.71
20 YR	11.80	8.06
30 YR	12.47	12.24

Average Annual Returns as of December 31, 2006

FOREIGN MARKETS CAPTURE TOP SPOTS

In each of the last 10 years, the best-performing stock market was a foreign stock market, demonstrating the importance of diversifying internationally. In most years, the performance of U.S. stocks, as measured by the S&P 500 Index, considerably lagged the returns of the leading foreign markets.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Switzerland 44.25	Korea 141.17	Finland 152.6	Switzerland 5.85	Korea 48.71	New Zealand 24.24	Argentina 101.34	Austria 71.52	Argentina 63.10	Venezuela 79.53
Italy 35.48	Finland 121.63	Singapore 99.41	Canada 5.34	Taiwan 10.47	Austria 16.55	Sweden 64.53	Venezuela 56.43	Korea 58.00	Argentina 67.31
Denmark 34.51	Belgium 67.75	Korea 92.41	Venezuela 4.47	New Zealand 8.42	Korea 8.62	Germany 63.80	Norway 53.27	Canada 28.31	Spain 49.36
S&P 500 33.36	Italy 52.53	Sweden 79.74	Denmark 3.44	Australia 1.68	Australia -1.34	Spain 58.46	Belgium 43.53	Japan 25.52	Ireland 46.81
Venezuela 28.32	Spain 49.90	Japan 61.53	Norway -0.89	Ireland -2.80	Norway -7.26	Austria 56.96	Ireland 43.07	Austria 24.64	Singapore 46.71
	S&P 500 28.58	S&P 500 21.04	S&P 500 -9.11	S&P 500 -11.89	S&P 500 -22.10	S&P 500 28.68	S&P 500 10.88	S&P 500 4.91	S&P 500 15.79

This chart shows the one-year returns for the top five stock markets versus the one-year return for the S&P 500 Index.
Source: Northern Trust

Other markets top U.S.

In seven of the last 10 years, the S&P 500 posted positive annual returns. And in six of those seven years, the index generated a double-digit return.

But, throughout that time period, the U.S. never was the top-performing market. Even a return of 33.36% in 1997 wasn't enough to earn the S&P 500 the top spot. The markets of three other countries — Switzerland, Italy and Denmark — offered better performance.

Given these performance trends, it makes sense to have exposure to both U.S. and foreign stocks.

**The MSCI EAFE Index is comprised of securities from 21 developed countries outside North America, including Japan, Hong Kong, Singapore, Australia, New Zealand and 16 European countries. The Index represents about 85% of the market capitalization within each country.*

MYTH 6:

ONLY DEVELOPED COUNTRIES OFFER ATTRACTIVE INVESTMENT OPPORTUNITIES

REALITY: EMERGING MARKETS OFFER CONSIDERABLE HIGH RISK/RETURN INVESTMENT OPPORTUNITIES

Many emerging markets reside in nations with a history of political and economic instability, which means their stock prices may experience wide swings. But, in exchange for a higher degree of risk, emerging markets may offer greater long-term returns.

MARKETS EMERGING THROUGHOUT THE WORLD

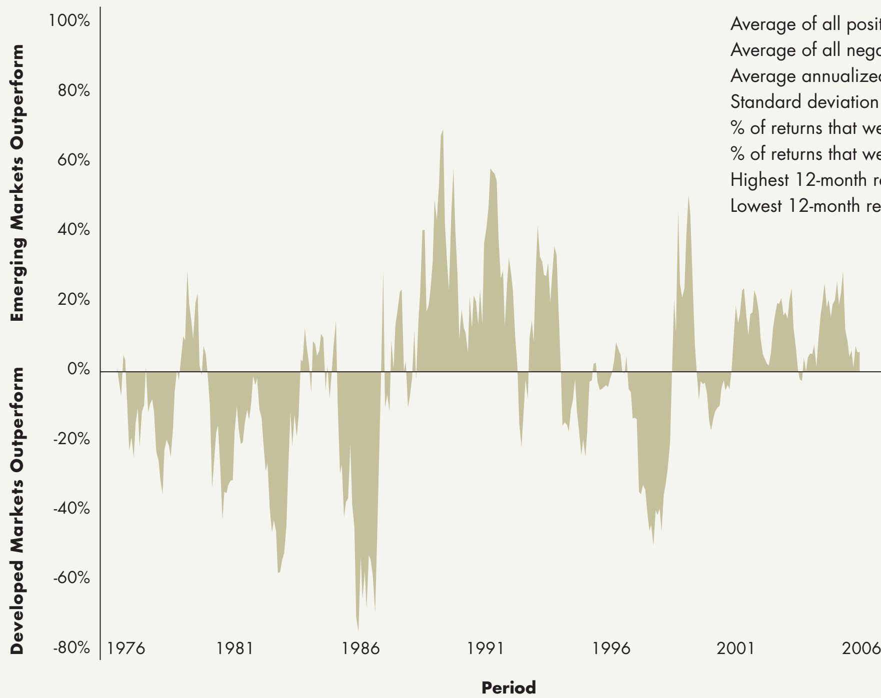
The world's emerging markets are a diverse and geographically dispersed group of 25 nations striving to strengthen and maintain economic success. Many have experienced or are about to experience explosive economic growth.

This chart shows the countries comprising the MSCI Emerging Markets Index as of June 2006.
Source: MSCI

A SOLID LONG-TERM TRACK RECORD

Although the emerging markets represent the "riskier" segment of the international stock arena, they offer a solid long-term performance record. And, in recent years, emerging markets have consistently outperformed their developed-market counterparts.

	EMERGING MARKETS	DEVELOPED MARKETS
Average of all positive returns	+26.9%	+22.6%
Average of all negative returns	-17.3%	10.9%
Average annualized return	+14.0%	+14.5%
Standard deviation	26.2%	22.2%
% of returns that were positive	71%	76%
% of returns that were negative	29%	24%
Highest 12-month return	+82.2%	+103.7%
Lowest 12-month return	-49.6%	-28.3%



This chart shows the outperformance of the developed international markets (MSCI EAFE Index) versus the outperformance of the emerging markets (MSCI Emerging Markets Index) from 1976 through 2006.

Source: Standard & Poors. Developed-market performance is represented by the total returns of the MSCI EAFE Index. Emerging-market performance is represented by the total returns of the MSCI Emerging Markets Index. The emerging-market data provided prior to 1988 is from the IFCG Total Return Index.

Robust growth opportunities

Emerging markets account for almost half of the world's GDP and are home to 85% of the world's population. Unlike the developed nations of the world, which feature mature economies and established financial markets, many emerging-market countries are experiencing or soon may experience strong economic and stock market growth. Northern Trust research suggests many emerging-market countries offer double the economic growth rate of developed countries and robust company earnings.

A history of outperformance

Despite occasional periods of dramatic underperformance, the long-term equity returns of emerging markets are noteworthy. In fact, emerging-market stocks have an 18-year history of outperforming the U.S. and non-U.S. developed equity markets.

At the same time, the "emerging" status of these markets means they are susceptible to high volatility. Given the risk/reward profile of this segment of the international stock market, a diversified approach is warranted.

MYTH 7:

FOREIGN STOCKS ADD VOLATILITY TO AN INVESTMENT PORTFOLIO

REALITY: INTERNATIONAL STOCK EXPOSURE CAN ADD BALANCE AND DIVERSIFICATION

All investments contain some degree of volatility. One of the most effective ways to combat volatility is to assemble a broadly diversified investment portfolio. But many U.S.-based investors avoid foreign investments, preferring the perceived "safety" and comfort of home-based holdings.

Diversify to smooth out performance

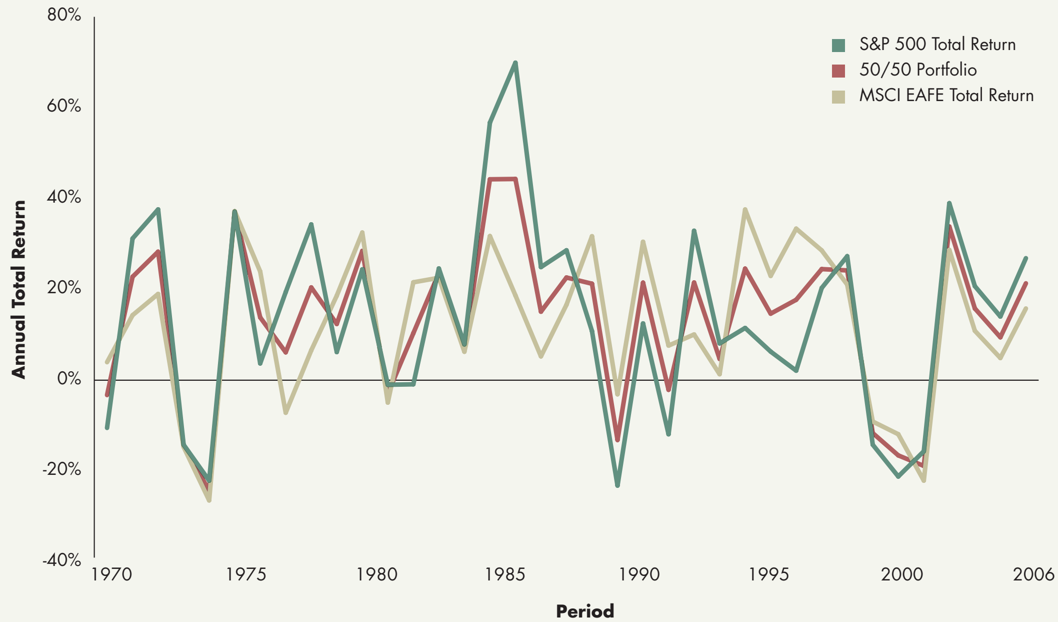
There are many ways to diversify a domestic stock portfolio — by company size, by investment style, or by market sector or industry. But by adding an additional asset class, international equities, to your portfolio, you may strengthen your overall investment strategy by limiting wide swings in performance.

Diversifying with overseas investments, including stocks of developed and emerging-market companies and foreign real estate holdings, allows you to participate in the growth opportunities of various economies and markets. When you add international stocks to your portfolio, you actually may limit your overall volatility because your strategy not only is diversified among company size, investment style and industry, but it is spread out across several countries.

You can make a difference in your portfolio's long-term strategy by making a relatively small investment in international stocks.

A MIXED PORTFOLIO LESSENS THE SWINGS

A portfolio evenly divided between U.S. stocks and foreign stocks offers an added level of diversification than portfolios invested entirely in U.S. or foreign stocks. In general, a blended portfolio participates in rising markets and declines in falling markets, but not to the degree, up or down, of the non-blended portfolios.



This chart compares the performance of an all-domestic stock portfolio, an all-foreign stock portfolio and a 50/50 mix for the period from December 31, 1969 to December 31, 2006. Note that in this case, combining a highly volatile security with one that is somewhat less volatile provided returns that were roughly in between the two.

Source: Standard & Poors. Domestic stocks are represented by the total returns of the S&P 500 Index. Foreign stocks are represented by the total returns of the MSCI EAFE Index. Past performance is no guarantee of future results.

INVESTING ABROAD: YOUR PASSPORT TO GLOBAL GROWTH

When you open the borders of your investment portfolio, you invite in a world of opportunity and diversification. Obviously, you gain exposure to different economies, industries, and stock markets, but you also expand your portfolio's return potential and help to limit overall volatility. Plus, international investing gives you an added level of diversification that can enhance the effects of your asset allocation strategy.

With locations throughout the world, Northern Trust offers the insight and expertise to navigate the global financial markets, turning foreign-market knowledge into exciting investment opportunities.

Our fund managers understand the political and economic environments of the countries in which we invest. This commitment lets us stay on top of new developments and trade on new information as it's released in local markets.

For more information on how you can put a world of opportunity to work in a diversified investment portfolio, contact your financial advisor or the Northern Funds Center at **800-595-9111**, or visit **northernfunds.com**.

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