

Northern CA Tax-Exempt NCATX

Morningstar's Take | 02-16-10 | by Jonathan Rahbar

The state of California's fragile state hasn't hobbled this sturdy offering. Californians have to appreciate Northern California Tax-Exempt's proven ways.

The Golden State undoubtedly has its fair share of troubles, but California investors can rest easier knowing that this municipals fund is available to lessen the federal and state income tax bite. The portfolio is ripe with high-quality muni bonds that don't always shoot the lights out, but also tend not to fall as hard as some shakier issues when the going gets tough. In 2008, for instance, the fund turned in a best-in-class showing, losing only 3.3% while the average California muni rival shed 11.1%. In total, 97% of bonds in the portfolio are rated A or better, compared with the category average of 73%. That quality focus has also helped boost the fund's three-, five-, and 10-year returns to the group's top decile.

California's budget woes have made headlines in recent months, but that doesn't mean the picture is all bad. Portfolio manager Eric Boeckmann, who has managed the fund since its 1998 inception, isn't resting easy. In shaping the portfolio, he considers employment rates throughout different parts of the state, income levels, and home prices, gravitating toward wealthier areas that tend to hold up better in challenging markets. The team's preference for steady income streams is also a reason why the portfolio has virtually no exposure to land-development bonds, which offered the fund added stability throughout the credit crunch. More recently, Boeckmann has been favoring issuers that aren't heavily reliant on state funding, such as school districts that have issued debt approved by regional voters.

When racier corners of the market rally, the fund may lag its more aggressive rivals—as was the case in 2009 when the fund gained 12.4% but trailed the typical peer by 5 percentage points. Even so, Californians with a long time horizon and a penchant for stability have a lot to like here.

Morningstar Rating

★★★★

Kudos

- Solid management team and proven record.
- Conservatively run compared with rivals in the group.

Risks

- May lag when riskier fare outperforms.
- Higher price tag that could eat into returns.

Strategy

The fund is managed with a quality bias, concentrating the majority of assets in California munis rated A or better. Management won't make sweeping calls on the direction of interest rates, and the portfolio has very little exposure to riskier segments of the municipal-bond market.

Management

Eric Boeckmann joined Northern Trust in 1985 and has managed the fund since its inception in 1998. Boeckmann also runs Northern California Intermediate Tax-Exempt NCITX and Northern Arizona Tax-Exempt NOAZX. Three muni credit analysts support the tax-exempt team at Northern Trust.

Role in Portfolio

A core holding for California muni investors.

Northern CA Tax-Exempt NCATX

Year	Total Return (%)	+/-Category
2009	12.36	-5.02
2008	-3.28	7.77
2007	2.73	2.02
2006	3.80	-0.78

Data through 12-31-09

NORTHERN CALIFORNIA TAX-EXEMPT FUND

Inception 4/8/1997

AVERAGE ANNUAL TOTAL RETURNS AS OF 9/30/10				TOTAL ANNUAL OPERATING EXPENSE RATIOS	
1-Year	5-Year	10-Year	Since Inception	Gross	Net
5.17%	4.87%	5.53%	5.70%	0.93%	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.

The Advisor has agreed to reimburse certain expenses of the Fund. The contractual reimbursement arrangement is expected to continue until at least July 31, 2011. 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.

Regional Investment Risk: The geographical concentration of portfolio holdings in the Fund may involve increased risk.

Non-Diversified Risk: The Fund invests in a smaller number of stocks than the average mutual fund. The change in value of a single holding may have a more pronounced effect on the Fund's net asset value and performance than for other funds.

Mortgage-Backed Securities Risk: Mortgage-backed investments involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, the Fund's performance may be more volatile than if it did not hold these securities.

Important Morningstar Information: As of 9/30/10, Northern California Tax-Exempt Fund received a 4-star rating for overall performance among 147 Municipal California Long funds, 5 stars for 3-year performance among 147 funds, 4 stars for 5-year performance among 132 funds, and 4 stars for 10-year performance among 115 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.

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