

InvestmentNews[®]

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THE LEADING INFORMATION SOURCE FOR FINANCIAL ADVISERS

Veteran small-cap manager navigates market cycles with a basic philosophy

Robert Bergson of Northern Trust Asset Management embraces bottom-up stock picking and usually beats his peers

By Jeff Benjamin

Over the 18 years Robert Bergson has managed the [Northern Small Cap Value Fund \(NOSGX\)](#), he has navigated through just about every kind of [market condition](#), which is probably why he's able to stay so calm during the [current state of the financial markets](#).

"We're at a point in the cycle where we really do want to stay focused on avoiding the lower-quality stocks and finding the stocks we think are reasonably priced and have some demonstrated profitability," he said.

Mr. Bergson, 54, studied architecture in college and worked in real estate consulting before joining Northern Trust Asset Management in 1997, where he is now responsible for \$4.4 billion across various small-cap strategies.

Jeff Benjamin: What type of investor should be investing in this fund?

Robert Bergson: I think the investors and our clients are looking for consistent returns and exposures and are willing to enjoy the appreciation of incremental sorts of returns, rather than looking for the home run one year and strike out the next.

JB: Your fund is up 9.5% so far this year, following a 13.7% decline last year, both of which are better than the category average. But the 6.5% gain in 2017 lagged the category



ROBERT BERGSON

after beating the category in 2016 with gain of 27.9%. Is this an aggressive fund?

RB: I think we reflect the style objective. We're in small cap value style and we reflect the volatility within that part of the market.

JB: Can you sum up your investing style and approach to portfolio construction?

RB: I would call it a highly disciplined approach. We are risk conscious and I think that reflects our general philosophy about investing, which is that you should only take risk where you think you will get rewarded for it.

The discipline is to keep focused on where you think you can add the most value and avoid the areas where you don't.

We're bottom up, we're not going to try to make bets on individual sectors or style changes. We're not rotating through those sorts of style changes.

That discipline is important to us, and we use quantitative stock selection to help maintain that level of discipline.

JB: Morningstar lists this fund's annual turnover rate at 16%, which is very low. Is that by design?

RB: Indeed. Small cap investing has a number of differences to large cap investing. Perhaps the most critical difference is you have to recognize the higher cost of invest-

Northern Small Cap Value Fund (NOSGX)



Overall Morningstar Rating™

among 379 Small Value funds derived from a weighted average of the fund's 3- 5- and 10-year risk-adjusted returns as of 6/30/19.¹

ing within the small cap market that might not be present in large cap.

A part of what we do is control those transaction costs wherever possible and being able to reduce turnover is an important part of that.

We've designed the stock selection strategy to be slower moving. We're trying to buy and hold where we can and avoid noise trades, as well as being willing to diversify portfolio holdings to between 400 and 600 securities.

That allows us to trade smaller pieces of a larger number of securities which theoretically reduces the cost of trading because we're not having to trade big chunks of a less liquid security.

JB: It's not uncommon for small cap managers to sometimes drift into larger-cap stocks when they see opportunities there. How important is it for you to stay in the small-cap space?

RB: We try to stay focused on small cap, and we know many of our competitors will drift into the mid cap space for various reasons.

But we do try to remain focused within the small cap segment and that is by design.

We try to be within the range of our benchmark Russell 2000 Value Index.

JB: The latest public data show that the fund is heavily allocated to financials, technology and industrials. Why so much in those sectors?

RB: Exposures at the sector level are controlled relative to our benchmark, and typically we're within 2% of our benchmark.

Sector exposures are part of those uncompensated risks that we don't want to take.

JB: What risk controls does this fund have in place to keep volatility in check?

RB: I think one of the key differentiators in terms of volatility is that we have a pretty important quality bias in our stock selection methodology.

We try to avoid low quality stocks and by doing so we tend to reduce overall volatility.

We're also mindful of our relative return versus our benchmark. That

helps us on a benchmark-relative volatility picture.

JB: You took over management of this fund just two months before September 11, 2001 and you also managed it through the 2008 financial crisis. As a portfolio manager, what did you learn from those kinds of extreme experiences?

RB: One of the things our clients have appreciated over the years is that in times of stress, the portfolio tends to hang in better than our competitors and the market as a whole.

If you think back to 2008, which on a relative basis was probably our best year, we were able to navigate that market stress because of the sorts of stock selection strategies we've used, including a focus on higher-quality stocks.

JB: Where are you seeing opportunities now?

RB: When we look at opportunities it's really the ability to take advantage of some of our natural inclinations to define those higher-quality stocks within all of the sectors.

JB: Where do you see risk in the markets?

RB: Credit conditions and the interest rate environment, in part because of the weight of financials within small cap value.

The ongoing flattening of the curve makes it tough for small cap banks to really break out of a low-margin environment.

There is some concern about the ability for small cap value in general to do well when there is an unfavorable interest rate environment.

JB: What's the biggest challenge of managing an active stock fund in the midst of a record bull market for equities that seems to favor passive investing?

RB: There's always this desire to be human and chase returns, or to try and get that last market run. But I think it's really important to stay true and be disciplined about what you're doing, about your long-term philosophy, and really be willing to keep that long-term view even as perhaps it might get a little choppy in the near term.

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OVERALL MORNINGSTAR RATING™



Among 379 small value funds derived from a weighted average of the fund's 3-, 5- and 10-year risk-adjusted returns as of 6/30/19.

Small Cap Value received 3 stars for the 3-year rating among 379 small value funds, 4 stars for the 5-year rating among 337 funds and 4 stars for the 10-year rating among 226 funds.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Past performance is no guarantee of future results.

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[View investment terms definitions](#)

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NORTHERN TRUST

ASSET MANAGEMENT

NORTHERN FUNDS

SMALL CAP VALUE FUND

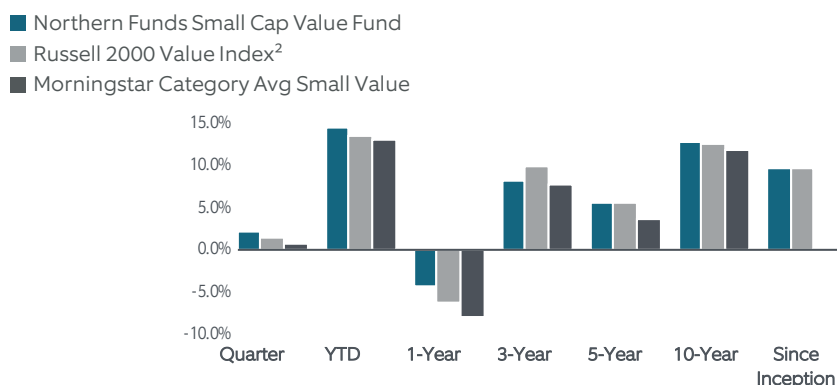
Investment Objective

The Fund seeks to provide long-term capital appreciation. Any income received is incidental to this objective.

Investment Approach

The Fund seeks to efficiently capture the small cap premium and deliver excess return by investing in a diverse portfolio of quality, undervalued, U.S. small capitalization companies consistent with small-cap value benchmarks. The Fund applies a multi-factor investment process seeking to identify positive momentum.

INVESTMENT PERFORMANCE % — AS OF 6/30/19



Average Annual Returns

	2.18	14.36	-4.35	8.12	5.59	12.73	9.61
Fund	2.18	14.36	-4.35	8.12	5.59	12.73	9.61
Benchmark ²	1.38	13.47	-6.24	9.81	5.39	12.40	9.70
Morningstar	0.63	12.92	-8.05	7.69	3.59	11.65	—

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.

Northern Trust Investments, Inc. has contractually agreed to reimburse a portion of the operating expenses of the Fund (other than certain excepted expenses, i.e., acquired fund fees and expenses; the compensation paid to each Independent Trustee of the Trust; expenses of third party consultants engaged by the Board of Trustees; membership dues paid to the Investment Company Institute and Mutual Fund Directors Forum; expenses in connection with the negotiation and renewal of the revolving credit facility; and extraordinary expense and interest) to the extent the "Total Annual Fund Operating Expenses" exceed 1.00%. The "Total Annual Fund Operating Expenses After Expense Reimbursement" may be higher than the contractual limitation as a result of the excepted expenses, including but not limited to Acquired Fund Fees and Expenses, that are not reimbursed. This contractual limitation may not be terminated before July 31, 2019 without the approval of the Board of Trustees. In the absence of contractual expense reimbursements, 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.

Please see back page for calendar year returns, index definitions and investment terms.

FUND OVERVIEW

	Fund
Benchmark/Index	Russell 2000 Value Index ²
Morningstar Category	Small Value
Inception Date	4/1/94
Total Net Assets	\$3.1 Billion
Symbol/CUSIP	NOSGX
Dividend Schedule	Annually
Expense Ratio - Gross (%)	1.13
Expense Ratio - Net (%)	1.00

The Gross and Net Expense Ratios are as of the most recent prospectus. The Net Expense Ratio includes contractual expense reimbursements that, if not extended, will end on July 31, 2019.

FUND CHARACTERISTICS

	Fund	Benchmark ²
Number of Holdings	535	1,347
Weighted Average Market Cap (\$M)	2,643.7	2,186.8
Return on Equity (%)	9.9	6.4
Trailing 12-month Price-to-Earnings Ratio	16.1	16.2
Price-to-Book (%)	1.5	1.5
Annual Portfolio Turnover as of 3/31/19 (%)	16.0	

PERFORMANCE AND RISK CHARACTERISTICS (3 YR)

	Fund
Beta	0.96
Information Ratio	-0.92
Upside Capture Ratio	91.72
Downside Capture Ratio	99.90

Above risk characteristics are based on 3-year time period.

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NORTHERN FUNDS
SMALL CAP VALUE FUND

CALENDAR YEAR RETURNS %

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Small Cap Value Fund	-13.68	6.43	27.87	-4.62	7.07	36.44	13.78	-0.60	24.61	17.77
Benchmark ²	-12.86	7.84	31.74	-7.47	4.22	34.52	18.05	-5.50	24.50	20.58
Morningstar Small Value	-15.46	8.54	25.99	-6.71	3.34	36.22	16.00	-4.45	26.17	31.32

Performance quoted represents past performance and does not guarantee future results.

TOP HOLDINGS %

	Fund
Insight Enterprises, Inc.	1.0
FTI Consulting, Inc.	1.0
Southwest Gas Holdings, Inc.	0.9
Radian Group Inc.	0.9
PNM Resources, Inc.	0.8
Selective Insurance Group, Inc.	0.7
Group 1 Automotive, Inc.	0.7
Cathay General Bancorp	0.7
NorthWestern Corporation	0.7
Pebblebrook Hotel Trust	0.7

SECTOR

ALLOCATION %	Fund	Benchmark ²
Financials	27.7	29.4
Industrials	13.3	11.6
Real Estate	11.5	12.3
Information Technology	10.7	11.9
Consumer Discretionary	9.3	8.5
Utilities	6.5	7.6
Health Care	5.2	4.0
Energy	5.2	5.1
Materials	4.7	4.2
Communication Services	3.4	2.9
Consumer Staples	2.4	2.4

ASSET ALLOCATION %

	Fund
Stocks	94.7
Cash & Cash Equivalents	5.3

PORTFOLIO MANAGEMENT

ROBERT H. BERGSON, CFA[®]

Began career in 1995 | With Northern Trust since 1997

Mr. Bergson received a Bachelor of Architecture degree from Carnegie Mellon University and an M.S. in real estate development from the Massachusetts Institute of Technology. He is an active CFA[®] charterholder and a member of the CFA Institute, the CFA Society Chicago and the Chicago Quantitative Alliance.

DISCLOSURE AND RISKS

All data is as of date indicated and subject to change.

¹ Past performance is no guarantee of future results. Ratings reflect fee waivers in effect; in their absence, ratings may have been lower.

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Equity Risk: Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed-income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes.

Small-Cap Risk: Small-capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Their stocks are subject to a greater degree of volatility, trade in lower volume and may be less liquid.

Value Risk: Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value.

DEFINITIONS

² Russell 2000[®] Value Index measures the performance of those Russell 2000[®] Index companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an index.

Beta: Beta represents the systematic risk of a portfolio and measures its sensitivity to a benchmark.

Down Market Capture: A measure of a managers performance in down markets relative to the market.

Information Ratio: A measure of risk-adjusted relative return.

Price-to-Book Ratio: A ratio used to compare a stocks market value to its book value. It is calculated by dividing the current price of the stock by the latest quarters book value per share.

Return on Equity: Amount of net income returned as a percentage of shareholders equity.

Trailing 12-month Price-to-Earnings Ratio: The sum of a companys price-to-earnings. Calculated by taking the current stock price and dividing it by the current earnings per share for the past 12 months.

Up Market Capture: A measure of a managers performance in up markets relative to the market.

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.



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