

## PROSPECTUS SUPPLEMENT

NORTHERN INSTITUTIONAL FUNDS  
FIXED INCOME PORTFOLIOSSUPPLEMENT DATED NOVEMBER 17, 2011 TO  
PROSPECTUS DATED APRIL 1, 2011

*The following replaces the paragraph under **MANAGEMENT – Investment Adviser and Portfolio Manager** on page 5 of the Prospectus:*

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.**

Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Bond Portfolio. Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc., have been managers of the Portfolio since November 2011.

*The following replaces the paragraph under **MANAGEMENT – Investment Adviser and Portfolio Manager** on page 8 of the Prospectus:*

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.**

Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Core Bond Portfolio. Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc., have been managers of the Portfolio since November 2011.

*The following replaces the paragraph under **MANAGEMENT – Investment Adviser and Portfolio Manager** on page 14 of the Prospectus:*

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.**

Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Intermediate Bond Portfolio. Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc., have been managers of the Portfolio since November 2011.

*The following replaces the paragraph under **MANAGEMENT – Investment Adviser and Portfolio Manager** on page 17 of the Prospectus:*

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.**

Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Short Bond Portfolio. Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc., have been

managers of the Portfolio since November 2011 and November 2010, respectively.

*The following replaces the paragraph under **MANAGEMENT – Investment Adviser and Portfolio Manager** on page 21 of the Prospectus:*

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.**

Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the U.S. Government Securities Portfolio. Daniel J. Personette, Vice President of Northern Trust Investments, Inc., and Brian W. Hart, Officer of Northern Trust Investments, Inc., have been managers of the Portfolio since November 2006 and November 2011, respectively.

*The following replaces the second, third and fourth paragraph under **PORTFOLIO MANAGEMENT** on page 25 of the Prospectus:*

The managers for the **Bond, Core Bond and Intermediate Bond Portfolios** are Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc. Mr. Azar and Mr. Camden have been managers of the Portfolios since November 2011. Mr. Azar joined Northern Trust Investments, Inc. in 2004 and is a senior portfolio manager in the active long duration fixed income group, responsible for trading corporate debt and securitized products. Mr. Camden joined Northern Trust Investments, Inc. in 2005 and has assisted in the management of various fixed-income portfolios.

The managers for the **Short Bond Portfolio** are Fred A. Azar, Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc. Mr. Azar and Mr. Camden have been managers of the Portfolio since November 2011 and November 2010, respectively.

The managers for the **U.S. Government Securities Portfolio** are Daniel J. Personette, Vice President of Northern Trust Investments, Inc., and Brian W. Hart, Officer of Northern Trust Investments, Inc. Mr. Personette and Mr. Hart have been managers of the Portfolio since November 2006 and November 2011, respectively. Mr. Personette joined Northern Trust Investments, Inc. in 1996 and has managed various fixed-income portfolios. Mr. Hart joined Northern Trust Investments, Inc. in 2009 and is an associate portfolio manager on the taxable long duration team.

\* \* \*

## PROSPECTUS SUPPLEMENT

**SUPPLEMENT DATED OCTOBER 7, 2011 TO  
PROSPECTUS DATED APRIL 1, 2011**

This supplement provides new information beyond that contained in the Prospectus and should be read in conjunction with the Prospectus.

Effective October 13, 2011, the Class C Shares and Class D Shares classes of the Bond Portfolio, Core Bond Portfolio, U.S. Treasury Index Portfolio, Intermediate Bond Portfolio, Short Bond Portfolio and U.S. Government Securities Portfolio (each a "Portfolio," together the "Portfolios") will be closed to investment by new accounts. At the close of business on November 28, 2011, current shareholders of Class C Shares and Class D Shares of each Portfolio will have their shares automatically converted to Class A Shares of the same Portfolio on the basis of the relative net asset value per share of the share classes as of the close of business on

November 28, 2011. Affected shareholders will not incur any transaction costs in connection with this conversion, and such conversion will be on a tax-free basis. Please see the Prospectus and Statement of Additional Information ("SAI") for information regarding the characteristics of Class A Shares. Until the close of business on November 28, 2011, current account holders may purchase additional Class C Shares or Class D Shares of the Portfolios, as well as redeem or exchange their Class C Shares or Class D Shares, respectively, for Class C Shares or Class D Shares of other Northern Institutional Funds, as described in the Prospectus and SAI. Financial intermediaries who currently contract with Northern Institutional Funds to receive shareholder servicing payments under the Northern Institutional Funds' Service Plans for Class C and Class D Shares will be requested to enter into similar contracts with Northern Trust Investments, Inc. to receive the same shareholder servicing payments they are currently receiving.

*Please retain this Supplement with your Prospectus for future reference.*

50 South LaSalle Street  
P.O. Box 75986  
Chicago, Illinois 60675-5986  
800-637-1380  
[northernfunds.com/institutional](http://northernfunds.com/institutional)



Managed by  
**Northern Trust**

NIF SPT FIX (11/11)

**NORTHERN INSTITUTIONAL FUNDS****BOND PORTFOLIO**

CLASS A (BBPAX)  
CLASS C (BBPCX)  
CLASS D (BBPDX)

**CORE BOND PORTFOLIO**

CLASS A (NOCBX)  
CLASS C (NCOCX)  
CLASS D (NOCDX)

**U.S. TREASURY INDEX PORTFOLIO**

CLASS A (BTIAX)  
CLASS C (BUTCX)  
CLASS D (BUTDX)

**INTERMEDIATE BOND PORTFOLIO**

CLASS A (NIBAX)  
CLASS C  
CLASS D (NOIDX)

**SHORT BOND PORTFOLIO**

CLASS A (BSBAX)  
CLASS C  
CLASS D (BSDAX)

**U.S. GOVERNMENT SECURITIES  
PORTFOLIO**

CLASS A (BUSAX)  
CLASS C  
CLASS D (BUSDX)

**Prospectus dated April 1, 2011**

An investment in a Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC"), any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank. An investment in a Portfolio involves investment risks, including possible loss of principal.

The Securities and Exchange Commission ("SEC") has not approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

**TABLE OF CONTENTS**

<b>3</b>	<b>PORTFOLIO SUMMARIES</b>
3	BOND PORTFOLIO
6	CORE BOND PORTFOLIO
9	U.S. TREASURY INDEX PORTFOLIO
12	INTERMEDIATE BOND PORTFOLIO
15	SHORT BOND PORTFOLIO
19	U.S. GOVERNMENT SECURITIES PORTFOLIO
<b>22</b>	<b>BROAD-BASED SECURITIES MARKET INDICES</b>
<b>23</b>	<b>INVESTMENT ADVISER</b>
<b>24</b>	<b>ADVISORY FEES</b>
<b>25</b>	<b>PORTFOLIO MANAGEMENT</b>
<b>26</b>	<b>OTHER PORTFOLIO SERVICES</b>
<b>27</b>	<b>PURCHASING AND SELLING SHARES</b>
27	INVESTORS
27	SHARE CLASSES
27	PURCHASING SHARES
27	OPENING AN ACCOUNT
28	SELLING SHARES
<b>30</b>	<b>ACCOUNT POLICIES AND OTHER INFORMATION</b>
<b>36</b>	<b>DIVIDENDS AND DISTRIBUTIONS</b>
<b>37</b>	<b>TAX CONSIDERATIONS</b>
<b>39</b>	<b>SECURITIES, TECHNIQUES AND RISKS</b>
39	ADDITIONAL INFORMATION ON INVESTMENT OBJECTIVES, PRINCIPAL INVESTMENT STRATEGIES AND RELATED RISKS
46	ADDITIONAL DESCRIPTION OF SECURITIES AND COMMON INVESTMENT TECHNIQUES
51	DISCLAIMERS
<b>53</b>	<b>FINANCIAL HIGHLIGHTS</b>
<b>64</b>	<b>FOR MORE INFORMATION</b>

## PORTFOLIO SUMMARIES

## BOND PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to maximize total return (capital appreciation and income) consistent with reasonable risk.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

**Shareholder Fees** (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.40%	0.40%	0.40%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.17%	0.41%	0.56%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.07%	0.16%	0.21%
Acquired Fund Fees & Expenses	0.01%	0.01%	0.01%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.58%</b>	<b>0.82%</b>	<b>0.97%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.21)%	(0.21)%	(0.21)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.37%</b>	<b>0.61%</b>	<b>0.76%</b>

<sup>(1)</sup> Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
<b>Class A</b>	\$38	\$165	\$303	\$706
<b>Class C</b>	\$62	\$241	\$434	\$994
<b>Class D</b>	\$78	\$288	\$516	\$1,171

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 709.09% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will seek capital appreciation and current income in its attempt to maximize total return. In doing so, the Portfolio will invest, under normal circumstances, at least 80% of its net assets in bonds and other fixed-income securities. These may include:

- Obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises, including obligations that are issued by private issuers that are guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities;
- Obligations of state, local and foreign governments;
- Obligations of domestic and foreign banks and corporations;
- Zero coupon bonds, debentures, preferred stock and convertible securities;
- Mortgage and other asset-backed securities;
- Stripped securities evidencing ownership of future interest or principal payments on debt obligations; and
- Repurchase agreements relating to the above instruments.

The Portfolio invests primarily in investment grade domestic debt obligations (i.e., obligations rated within the top four rating categories by a Nationally Recognized Statistical Rating Organization ("NRSRO") or of comparable quality as determined by the Investment Adviser). However, it may invest to a limited extent in obligations of foreign issuers and in securities that are rated below investment grade (commonly referred to as "junk bonds").

In buying and selling securities for the Portfolio, the investment management team uses a relative value approach. This

## BOND PORTFOLIO

approach involves an analysis of general economic and market conditions. It also involves the use of models that analyze and compare expected returns and assumed risks. Under the relative value approach, the investment management team will emphasize particular securities and types of securities (such as treasury, agency, asset-backed, mortgage-related and corporate securities) that the team believes will provide a favorable return in light of these risks.

The Portfolio's dollar-weighted average maturity, under normal circumstances, will range between three and fifteen years. The investment management team may engage in active trading, and will not consider portfolio turnover a limiting factor in making decisions for the Portfolio.

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

**LIQUIDITY RISK** is the risk that certain portfolio securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Portfolio would like, adversely affecting the value of the Portfolio's investments and its returns.

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**CREDIT (OR DEFAULT) RISK** is the risk that the inability or unwillingness of an issuer or guarantor of a fixed-income security, or a counterparty to a repurchase or other transaction,

to meet its payment or other financial obligations will adversely affect the value of the Portfolio's investments and its returns. Changes in the credit rating of a debt security held by the Portfolio could have a similar effect.

**CURRENCY RISK** is the risk that foreign currencies will fluctuate in value relative to the U.S. dollar, adversely affecting the value of the Portfolio's investments and its returns. Because the Portfolio's net asset value ("NAV") is determined on the basis of U.S. dollars, you may lose money if the local currency of a foreign market depreciates against the U.S. dollar, even if the market value of the Portfolio's holdings appreciates.

**FOREIGN SECURITIES RISK** is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies, due to less liquid markets, and adverse economic, political, diplomatic, financial, and regulatory factors. Foreign governments also may impose limits on investment and repatriation and impose taxes. Any of these events could cause the value of the Portfolio's investments to decline.

**HIGH-YIELD RISK** is the risk that the Portfolio's non-investment grade fixed-income securities, sometimes known as "junk bonds," will be subject to greater credit risk, price volatility and risk of loss than investment grade securities, which can adversely impact the Portfolio's return and net asset value. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payment.

**PORTFOLIO TURNOVER RISK** is the risk that high portfolio turnover is likely to lead to increased Portfolio expenses that may result in lower investment returns. High portfolio turnover also is likely to result in higher short-term capital gains taxable to shareholders. For the last fiscal year, the annual portfolio turnover rate of the Portfolio exceeded 100%.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

## PORTFOLIO PERFORMANCE

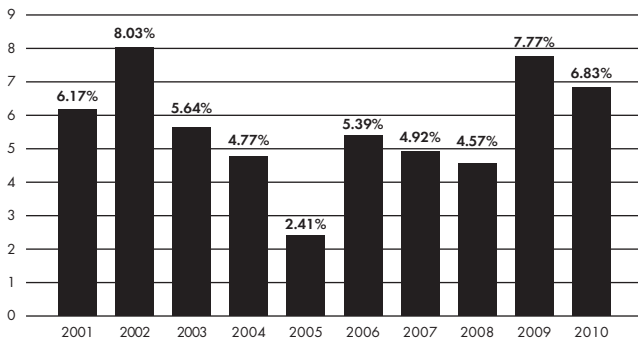
The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

## BOND PORTFOLIO

The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at [www.northernfunds.com/institutional](http://www.northernfunds.com/institutional) or by calling 800-637-1380.

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 4.34% in the fourth quarter of 2008, and the lowest quarterly return was (2.43)% in the second quarter of 2004.

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	10-Year	Since Inception
Class A					
Return before taxes	1/11/93	6.83%	5.89%	5.63%	6.43%
Return after taxes on distributions		5.43%	4.23%	3.80%	4.08%
Return after taxes on distributions and sale of Portfolio shares		4.43%	4.05%	3.71%	4.04%
Class C return before taxes	7/3/95	6.52%	5.62%	5.37%	6.21%
Class D return before taxes	9/14/94	6.37%	5.49%	5.24%	6.05%
Barclays Capital U.S. Aggregate Index (reflects no deduction for fees, expenses, or taxes)		6.54%	5.80%	5.84%	6.38%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Bond Portfolio. Colin A. Robertson, Senior Vice President of Northern Trust Investments, Inc., has been manager of the Portfolio since November 2003.

## PURCHASE AND SALE OF PORTFOLIO SHARES

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the "Trust") with a minimum initial investment of \$5 million in one or more of the Trust's portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

## TAX INFORMATION

The Portfolio's distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

## PAYMENTS TO BROKERS-DEALERS AND OTHER FINANCIAL INTERMEDIARIES

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

## CORE BOND PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to maximize total return (capital appreciation and income) consistent with reasonable risk.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

**Shareholder Fees** (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.40%	0.40%	0.40%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.24%	0.48%	0.63%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.14%	0.23%	0.28%
Acquired Fund Fees & Expenses	0.01%	0.01%	0.01%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.65%</b>	<b>0.89%</b>	<b>1.04%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.28)%	(0.28)%	(0.28)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.37%</b>	<b>0.61%</b>	<b>0.76%</b>

<sup>(1)</sup> Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
<b>Class A</b>	\$38	\$180	\$334	\$784
<b>Class C</b>	\$62	\$256	\$466	\$1,070
<b>Class D</b>	\$78	\$303	\$547	\$1,246

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 765.28% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will seek capital appreciation and current income in its attempt to maximize total return. In doing so, the Portfolio will invest, under normal circumstances, at least 80% of its net assets in bonds and other fixed-income securities. These may include:

- Obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises, including obligations that are issued by private issuers that are guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities;
- Obligations of state, local and foreign governments;
- Obligations of domestic and foreign banks and corporations;
- Zero coupon bonds, debentures, preferred stock and convertible securities;
- Mortgage and other asset-backed securities;
- Stripped securities evidencing ownership of future interest or principal payments on debt obligations; and
- Repurchase agreements relating to the above instruments.

The Portfolio invests primarily in the investment grade debt obligations of domestic issuers. Investment grade debt obligations are obligations rated within the top four rating categories by a Nationally Recognized Statistical Rating Organization ("NRSRO") or determined by the Investment Adviser to be of comparable quality. The Portfolio also may invest to a limited extent in U.S. dollar denominated investment grade obligations of foreign issuers.

In buying and selling securities for the Portfolio, the investment management team uses a relative value approach. This approach involves an analysis of general economic and market conditions. It also involves the use of models that analyze and compare expected returns and assumed risks. Under the relative value approach, the investment management team will emphasize particular securities and types of securities (such as treasury, agency, asset-backed, mortgage-related and corporate securities) that the team believes will provide a favorable total return in light of these risks.

## CORE BOND PORTFOLIO

The Portfolio's dollar-weighted average maturity, under normal circumstances, will range between three and fifteen years.

The investment management team may engage in active trading, and will not consider portfolio turnover a limiting factor in making decisions for the Portfolio.

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

**LIQUIDITY RISK** is the risk that certain portfolio securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Portfolio would like, adversely affecting the value of the Portfolio's investments and its returns.

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**CREDIT (OR DEFAULT) RISK** is the risk that the inability or unwillingness of an issuer or guarantor of a fixed-income security, or a counterparty to a repurchase or other transaction, to meet its payment or other financial obligations will adversely affect the value of the Portfolio's investments and its returns. Changes in the credit rating of a debt security held by the Portfolio could have a similar effect.

**FOREIGN SECURITIES RISK** is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a fund that

invests exclusively in securities of U.S. companies, due to less liquid markets, and adverse economic, political, diplomatic, financial, and regulatory factors. Foreign governments also may impose limits on investment and repatriation and impose taxes. Any of these events could cause the value of the Portfolio's investments to decline.

**PORTFOLIO TURNOVER RISK** is the risk that high portfolio turnover is likely to lead to increased Portfolio expenses that may result in lower investment returns. High portfolio turnover also is likely to result in higher short-term capital gains taxable to shareholders. For the last fiscal year, the annual portfolio turnover rate of the Portfolio exceeded 100%.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

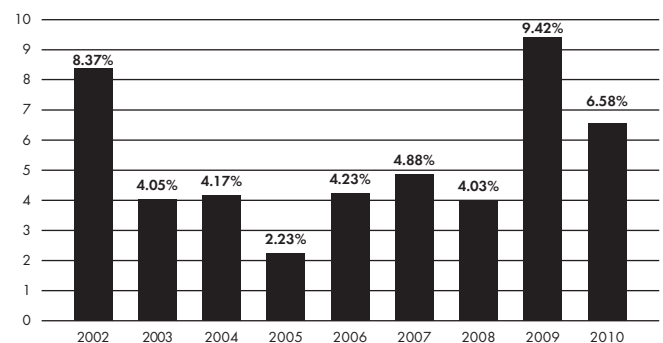
## PORTFOLIO PERFORMANCE

The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at [www.northernfunds.com/institutional](http://www.northernfunds.com/institutional) or by calling 800-637-1380.

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 4.33% in the third quarter of 2002, and the lowest quarterly return was (2.61)% in the second quarter of 2004.

## CORE BOND PORTFOLIO

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	Since Inception
Class A				
Return before taxes	3/29/01	6.58%	5.81%	5.30%
Return after taxes on distributions		5.01%	4.12%	3.52%
Return after taxes on distributions and sale of Portfolio shares		4.39%	3.97%	3.46%
Class C return before taxes	3/29/01	6.32%	5.56%	5.07%
Class D return before taxes	3/29/01	6.13%	5.36%	4.96%
Barclays Capital U.S. Aggregate Index (reflects no deduction for fees, expenses, or taxes)		6.54%	5.80%	5.66%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Portfolio. Colin A. Robertson, Senior Vice President of Northern Trust Investments, Inc., has been manager of the Portfolio since November 2003.

## PURCHASE AND SALE OF PORTFOLIO SHARES

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the "Trust") with a minimum initial investment of \$5 million in one or more of the Trust's portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.

- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

## TAX INFORMATION

The Portfolio's distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

## PAYMENTS TO BROKERS-DEALERS AND OTHER FINANCIAL INTERMEDIARIES

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

## U.S. TREASURY INDEX PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to provide investment results approximating the performance of the Barclays Capital U.S. Treasury Index.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

**Shareholder Fees** (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.30%	0.30%	0.30%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.18%	0.42%	0.57%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.08%	0.17%	0.22%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.48%</b>	<b>0.72%</b>	<b>0.87%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.22)%	(0.22)%	(0.22)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.26%</b>	<b>0.50%</b>	<b>0.65%</b>

<sup>(1)</sup> Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$27	\$132	\$247	\$582
Class C	\$51	\$208	\$379	\$874
Class D	\$66	\$256	\$461	\$1,052

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 47.05% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

Under normal circumstances, the Portfolio will invest substantially all (and at least 80%) of its net assets in a representative sample of the U.S. Treasury obligations included in the Barclays Capital U.S. Treasury Index. The Portfolio will buy and sell securities with the goal of achieving an overall duration and total return similar to that of the Barclays Capital U.S. Treasury Index.

The Barclays Capital U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall. As of December 31, 2010, the duration of the Barclays Capital U.S. Treasury Index was 5.19 years.

The Portfolio is passively managed, which means it tries to duplicate the investment composition and performance of the Barclays Capital U.S. Treasury Index using computer programs and statistical procedures. Because the Portfolio will have fees and transaction expenses (while the Barclays Capital U.S. Treasury Index has none), returns are likely to be below those of the Barclays Capital U.S. Treasury Index.

The Investment Adviser expects that, under normal circumstances, the quarterly performance of the Portfolio, before expenses, will track the performance of the Barclays Capital U.S. Treasury Index within a 0.95 correlation coefficient.

*Barclays Capital, Inc. ("Barclays Capital") does not endorse any of the securities in the Barclays Capital U.S. Treasury Index. It is not a sponsor of the Portfolio and is not affiliated with the Portfolio in any way.*

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

## U.S. TREASURY INDEX PORTFOLIO

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**TRACKING RISK** is the risk that the Portfolio's performance may vary substantially from the performance of the benchmark index it tracks as a result of share purchases and redemptions, transaction costs, expenses and other factors.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

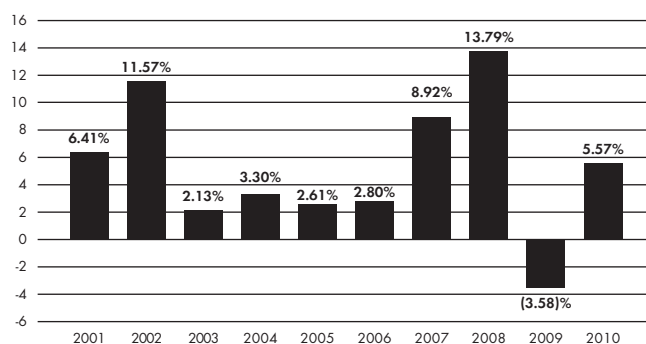
## PORTFOLIO PERFORMANCE

The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at [www.northernfunds.com/institutional](http://www.northernfunds.com/institutional) or by calling 800-637-1380.

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 8.80% in the fourth quarter of 2008, and the lowest quarterly return was (3.24)% in the second quarter of 2004.

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	10-Year	Since Inception
<b>Class A</b>					
Return before taxes	1/11/93	5.57%	5.34%	5.24%	5.98%
Return after taxes on distributions		4.31%	3.86%	3.60%	3.98%
Return after taxes on distributions and sale of Portfolio shares		3.98%	3.75%	3.56%	3.92%
Class C return before taxes	10/6/98	5.22%	5.09%	4.99%	5.80%
Class D return before taxes	11/16/94	5.18%	4.87%	4.80%	5.60%
Barclays Capital U.S. Treasury Index (reflects no deduction for fees, expenses, or taxes)		5.87%	5.47%	5.41%	6.17%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Portfolio. Brandon P. Ferguson, Officer of Northern Trust Investments, Inc., has been manager of the Portfolio since September 2009.

**U.S. TREASURY INDEX PORTFOLIO****PURCHASE AND SALE OF PORTFOLIO SHARES**

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the “Trust”) with a minimum initial investment of \$5 million in one or more of the Trust’s portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

**TAX INFORMATION**

The Portfolio’s distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

**PAYMENTS TO BROKERS-DEALERS AND OTHER FINANCIAL INTERMEDIARIES**

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary’s Web site for more information.

## INTERMEDIATE BOND PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to maximize total return (capital appreciation and income) consistent with reasonable risk.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

## Shareholder Fees (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.40%	0.40%	0.40%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.32%	0.56%	0.71%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.22%	0.31%	0.36%
Acquired Fund Fees & Expenses	0.01%	0.01%	0.01%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.73%</b>	<b>0.97%</b>	<b>1.12%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.36)%	(0.36)%	(0.36)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.37%</b>	<b>0.61%</b>	<b>0.76%</b>

<sup>(1)</sup> Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$38	\$197	\$370	\$873
Class C	\$62	\$273	\$501	\$1,157
Class D	\$78	\$320	\$582	\$1,331

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 801.81% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will seek capital appreciation and current income in its attempt to maximize total return. In doing so, the Portfolio will invest, under normal circumstances, at least 80% of its net assets in bonds and other fixed-income securities. These may include:

- Obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises, including obligations that are issued by private issuers that are guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities;
- Obligations of state, local and foreign governments;
- Obligations of domestic and foreign banks and corporations;
- Zero coupon bonds, debentures, preferred stock and convertible securities;
- Mortgage and other asset-backed securities;
- Stripped securities evidencing ownership of future interest or principal payments on debt obligations; and
- Repurchase agreements relating to the above instruments.

Although the Portfolio primarily invests in investment grade domestic debt obligations (i.e., obligations rated within the top four rating categories by a Nationally Recognized Securities Rating Organization ("NRSRO") or of comparable quality as determined by the Investment Adviser), it may invest to a limited extent in obligations of foreign issuers and in junk bonds.

In buying and selling securities for the Portfolio, the investment management team uses a relative value approach. This approach involves an analysis of general economic and market conditions. It also involves the use of models that analyze and compare expected returns and assumed risks. Under the relative value approach, the investment management team will emphasize particular securities and types of securities (such as treasury, agency, asset-backed, mortgage-related and corporate securities) that the team believes will provide a favorable return in light of these risks.

## INTERMEDIATE BOND PORTFOLIO

The Portfolio's dollar-weighted average maturity, under normal circumstances, will range between three and ten years.

The investment management team may engage in active trading, and will not consider portfolio turnover a limiting factor in making decisions for the Portfolio.

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

**LIQUIDITY RISK** is the risk that certain portfolio securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Portfolio would like, adversely affecting the value of the Portfolio's investments and its returns.

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**CREDIT (OR DEFAULT) RISK** is the risk that the inability or unwillingness of an issuer or guarantor of a fixed-income security, or a counterparty to a repurchase or other transaction, to meet its payment or other financial obligations will adversely affect the value of the Portfolio's investments and its returns. Changes in the credit rating of a debt security held by the Portfolio could have a similar effect.

**CURRENCY RISK** is the risk that foreign currencies will fluctuate in value relative to the U.S. dollar, adversely affecting the value of the Portfolio's investments and its returns. Because the Portfolio's net asset value ("NAV") is determined on the basis

of U.S. dollars, you may lose money if the local currency of a foreign market depreciates against the U.S. dollar, even if the market value of the Portfolio's holdings appreciates.

**FOREIGN SECURITIES RISK** is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies, due to less liquid markets, and adverse economic, political, diplomatic, financial, and regulatory factors. Foreign governments also may impose limits on investment and repatriation and impose taxes. Any of these events could cause the value of the Portfolio's investments to decline.

**HIGH-YIELD RISK** is the risk that the Portfolio's non-investment grade fixed-income securities, sometimes known as "junk bonds," will be subject to greater credit risk, price volatility and risk of loss than investment grade securities, which can adversely impact the Portfolio's return and net asset value. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payment.

**PORTFOLIO TURNOVER RISK** is the risk that high portfolio turnover is likely to lead to increased Portfolio expenses that may result in lower investment returns. High portfolio turnover also is likely to result in higher short-term capital gains taxable to shareholders. For the last fiscal year, the annual portfolio turnover rate of the Portfolio exceeded 100%.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

## PORTFOLIO PERFORMANCE

The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

There are no Class C Shares currently outstanding for the Portfolio.

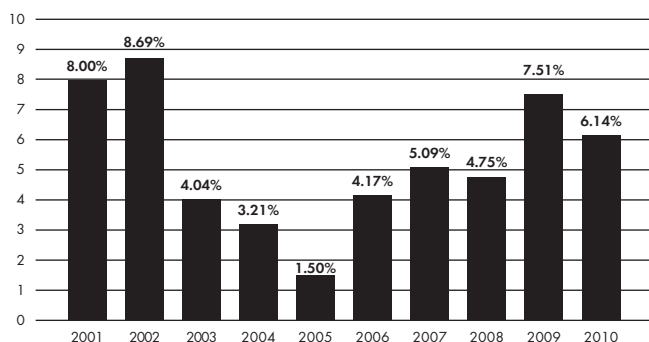
The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at

## INTERMEDIATE BOND PORTFOLIO

www.northernfunds.com/institutional or by calling  
800-637-1380.

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 4.85% in the fourth quarter of 2008, and the lowest quarterly return was (2.57)% in the second quarter of 2004.

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	10-Year	Since Inception
Class A					
Return before taxes	8/1/97	6.14%	5.53%	5.29%	5.25%
Return after taxes on distributions		4.27%	3.91%	3.70%	3.42%
Return after taxes on distributions and sale of Portfolio shares		4.03%	3.77%	3.58%	3.36%
Class D return before taxes	10/2/98	5.41%	4.54%	4.60%	4.66%
Barclays Capital Intermediate U.S. Government/Credit Index (reflects no deduction for fees, expenses, or taxes)		5.89%	5.53%	5.51%	5.71%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Portfolio. Colin A. Robertson, Senior Vice President of Northern Trust Investments, Inc., has been manager of the Portfolio since November 2003.

## PURCHASE AND SALE OF PORTFOLIO SHARES

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the "Trust") with a minimum initial investment of \$5 million in one or more of the Trust's portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

## TAX INFORMATION

The Portfolio's distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

## PAYMENTS TO BROKERS-DEALERS AND OTHER FINANCIAL INTERMEDIARIES

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

## SHORT BOND PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to maximize total return (capital appreciation and income) with minimal reasonable risk.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

**Shareholder Fees** (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.40%	0.40%	0.40%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.18%	0.42%	0.57%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.08%	0.17%	0.22%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.58%</b>	<b>0.82%</b>	<b>0.97%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.22)%	(0.22)%	(0.22)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.36%</b>	<b>0.60%</b>	<b>0.75%</b>

<sup>(1)</sup> Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$37	\$164	\$302	\$705
Class C	\$61	\$240	\$433	\$993
Class D	\$77	\$287	\$515	\$1,170

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 432.78% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will seek capital appreciation and current income in its attempt to maximize total return. In doing so, the Portfolio will invest, under normal circumstances, at least 80% of its net assets in bonds and other fixed-income securities. These may include:

- Obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises, including obligations that are issued by private issuers that are guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities;
- Obligations of state, local and foreign governments;
- Obligations of domestic and foreign banks and corporations;
- Zero coupon bonds, debentures, preferred stock and convertible securities;
- Mortgage and other asset-backed securities;
- Stripped securities evidencing ownership of future interest or principal payments on debt obligations; and
- Repurchase agreements relating to the above instruments.

Although the Portfolio primarily invests in investment grade domestic debt obligations (i.e., obligations rated within the top four rating categories by a Nationally Recognized Statistical Rating Organization ("NRSRO") or of comparable quality as determined by the Investment Adviser), it may invest to a limited extent in obligations of foreign issuers and in junk bonds.

In buying and selling securities for the Portfolio, the investment management team uses a relative value approach. This approach involves an analysis of general economic and market conditions. It also involves the use of models that analyze and compare expected returns and assumed risks. Under the relative value approach, the investment management team will emphasize particular securities and types of securities (such as treasury, agency, asset-backed, mortgage-related and corporate securities) that the team believes will provide a favorable return in light of these risks.

## SHORT BOND PORTFOLIO

The Portfolio's dollar-weighted average maturity, under normal circumstances, will range between one and three years.

The investment management team may engage in active trading, and will not consider portfolio turnover a limiting factor in making decisions for the Portfolio.

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

**LIQUIDITY RISK** is the risk that certain portfolio securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Portfolio would like, adversely affecting the value of the Portfolio's investments and its returns.

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**CREDIT (OR DEFAULT) RISK** is the risk that the inability or unwillingness of an issuer or guarantor of a fixed-income security, or a counterparty to a repurchase or other transaction, to meet its payment or other financial obligations will adversely affect the value of the Portfolio's investments and its returns. Changes in the credit rating of a debt security held by the Portfolio could have a similar effect.

**CURRENCY RISK** is the risk that foreign currencies will fluctuate in value relative to the U.S. dollar, adversely affecting the value of the Portfolio's investments and its returns. Because the Portfolio's net asset value ("NAV") is determined on the basis of U.S. dollars, you may lose money if the local currency of a

foreign market depreciates against the U.S. dollar, even if the market value of the Portfolio's holdings appreciates.

**FOREIGN SECURITIES RISK** is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies, due to less liquid markets, and adverse economic, political, diplomatic, financial, and regulatory factors. Foreign governments also may impose limits on investment and repatriation and impose taxes. Any of these events could cause the value of the Portfolio's investments to decline.

**HIGH-YIELD RISK** is the risk that the Portfolio's non-investment grade fixed-income securities, sometimes known as "junk bonds," will be subject to greater credit risk, price volatility and risk of loss than investment grade securities, which can adversely impact the Portfolio's return and net asset value. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payment.

**PORTFOLIO TURNOVER RISK** is the risk that high portfolio turnover is likely to lead to increased Portfolio expenses that may result in lower investment returns. High portfolio turnover also is likely to result in higher short-term capital gains taxable to shareholders. For the last fiscal year, the annual portfolio turnover rate of the Portfolio exceeded 100%.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

## PORTFOLIO PERFORMANCE

The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

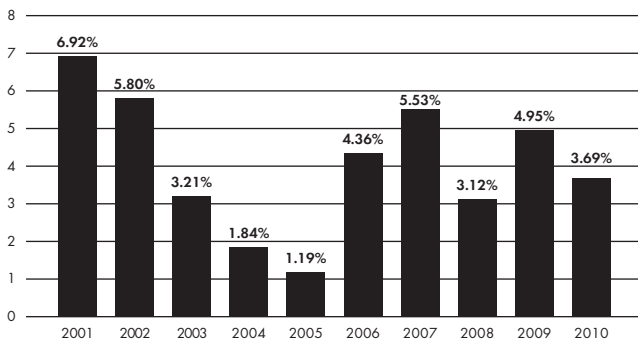
There are no Class C Shares currently outstanding for the Portfolio.

The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at [www.northernfunds.com/institutional](http://www.northernfunds.com/institutional) or by calling 800-637-1380.

## SHORT BOND PORTFOLIO

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 3.55% in the third quarter of 2001, and the lowest quarterly return was (1.69)% in the second quarter of 2004.

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	10-Year	Since Inception
Class A					
Return before taxes	1/11/93	3.69%	4.32%	4.05%	4.90%
Return after taxes on distributions		2.74%	3.06%	2.68%	2.90%
Return after taxes on distributions and sale of Portfolio shares		2.39%	2.95%	2.64%	2.93%
Class D return before taxes	9/14/94	3.30%	3.91%	3.64%	4.53%
Barclays Capital 1-3 Year U.S. Government/Credit Index (reflects no deduction for fees, expenses, or taxes)		2.80%	4.53%	4.34%	5.00%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

In calculating the federal income taxes due on redemptions, capital gains taxes resulting from redemptions are subtracted from the redemption proceeds and the tax benefits from capital losses resulting from the redemption are added to the redemption proceeds. Under certain circumstances, the addition of the tax benefits from capital losses resulting from redemptions may cause the Returns After Taxes on Distributions and Sale of Portfolio Shares to be greater than the Returns After Taxes on Distributions or even the Returns Before Taxes.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Portfolio. Colin A. Robertson, Senior Vice President of Northern Trust Investments, Inc., and Bradley Camden, Second Vice President of Northern Trust Investments, Inc., have been managers of the Portfolio since September 2002 and November 2010, respectively.

## PURCHASE AND SALE OF PORTFOLIO SHARES

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the "Trust") with a minimum initial investment of \$5 million in one or more of the Trust's portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

## TAX INFORMATION

The Portfolio's distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

**PAYMENTS TO BROKERS-DEALERS AND OTHER  
FINANCIAL INTERMEDIARIES**

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

## U.S. GOVERNMENT SECURITIES PORTFOLIO

## INVESTMENT OBJECTIVE

The Portfolio seeks to maximize total return (capital appreciation and income) with minimal reasonable risk.

## FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio.

## Shareholder Fees (fees paid directly from your investment)

None

**Annual Portfolio Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class D
Management Fees	0.40%	0.40%	0.40%
Distribution (12b-1) Fees	None	None	None
Other Expenses	0.25%	0.49%	0.64%
Administration Fees	0.10%	0.10%	0.10%
Service Agent Fees	None	0.15%	0.25%
Other Operating Expenses	0.15%	0.24%	0.29%
Acquired Fund Fees & Expenses	0.01%	0.01%	0.01%
<b>Total Annual Portfolio Operating Expenses</b>	<b>0.66%</b>	<b>0.90%</b>	<b>1.05%</b>
Fee Waiver and/or Expense Reimbursement <sup>(1)</sup>	(0.29)%	(0.29)%	(0.29)%
<b>Total Annual Portfolio Operating Expenses After Fee Waiver and/or Expense Reimbursement</b>	<b>0.37%</b>	<b>0.61%</b>	<b>0.76%</b>

(1) Northern Trust Investments, Inc. ("NTI" or the "Investment Adviser") has contractually agreed to waive a portion of its management fees and reimburse certain expenses of the Portfolio. The contractual waiver and reimbursement arrangements are expected to continue until at least April 1, 2012. After this date, NTI or the Portfolio may terminate the contractual arrangements. The Portfolio's Board of Trustees may terminate the contractual arrangements at any time if it determines that it is in the best interest of the Portfolio and its shareholders.

## EXAMPLE

The following Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Portfolio for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$38	\$182	\$339	\$ 795
Class C	\$62	\$258	\$470	\$1,081
Class D	\$78	\$305	\$551	\$1,256

**PORTFOLIO TURNOVER.** The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Portfolio shares are held in a taxable account. These costs, which are not reflected in annual portfolio operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's portfolio turnover rate was 1,227.07% of the average value of its portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will seek capital appreciation and current income in its attempt to maximize total return. In doing so, the Portfolio will invest, under normal circumstances, at least 80% of its net assets in securities issued or guaranteed by the U.S. government or by its agencies, instrumentalities, or sponsored enterprises and repurchase agreements relating to such securities. These may include:

- U.S. Treasury bills, notes and bonds;
- Obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises, including obligations that are issued by private issuers that are guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities;
- Mortgage-related securities issued or guaranteed by the U.S. government or by its agencies, instrumentalities or sponsored enterprises;
- Stripped securities evidencing ownership of future interest or principal payments on obligations of the U.S. government or its agencies, instrumentalities or sponsored enterprises; and
- Repurchase agreements relating to the above instruments.

The Portfolio also may make limited investments in the obligations of supranational organizations (such as the World Bank).

In buying and selling securities for the Portfolio, the investment management team uses a relative value approach. This approach involves an analysis of general economic and market conditions. It also involves the use of models that analyze and compare expected returns and assumed risks. Under the relative value approach, the investment management team will emphasize particular securities and types of securities (such as treasury, agency, asset-backed and mortgage-related securities) that the team believes will provide a favorable return in light of these risks.

The Portfolio's dollar-weighted average maturity, under normal circumstances, will range between one and five years.

## U.S. GOVERNMENT SECURITIES PORTFOLIO

In seeking to achieve its investment objective, the Portfolio may make significant investments in securities issued by U.S. government-sponsored entities. Obligations issued by U.S. government-sponsored entities are neither issued nor guaranteed by the U.S. Treasury and therefore are not backed by the full faith and credit of the United States.

The investment management team may engage in active trading, and will not consider portfolio turnover a limiting factor in making decisions for the Portfolio.

## PRINCIPAL RISKS

**MARKET RISK** is the risk that the market values of fixed-income securities owned by the Portfolio may decline, at times sharply and unpredictably.

**MANAGEMENT RISK** is the risk that a strategy used by the investment management team may fail to produce the intended results.

**LIQUIDITY RISK** is the risk that certain portfolio securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Portfolio would like, adversely affecting the value of the Portfolio's investments and its returns.

**INTEREST RATE/MATURITY RISK** is the risk that the value of the Portfolio's assets will decline because of rising interest rates. This risk is generally lower for funds that have shorter-weighted maturities, such as money market funds and short-term bond funds. The magnitude of this decline will often be greater for longer-term fixed-income securities than shorter-term fixed income securities.

**PREPAYMENT (OR CALL) RISK** is the risk that prepayment of the underlying mortgage or other collateral of some fixed-income securities may result in a decreased rate of return and a decline in value of those securities.

**DEBT EXTENSION RISK** is the risk that an issuer will exercise its right to pay principal on an obligation held by the Portfolio (such as a mortgage-backed security) later than expected. This may happen during a period of rising interest rates. Under these circumstances, the value of the obligation will decrease and the Portfolio will suffer from the inability to invest in higher yielding securities.

**PORTFOLIO TURNOVER RISK** is the risk that high portfolio turnover is likely to lead to increased Portfolio expenses that may result in lower investment returns. High portfolio turnover also is likely to result in higher short-term capital gains taxable to shareholders. For the last fiscal year, the annual portfolio turnover rate of the Portfolio exceeded 100%.

**U.S. GOVERNMENT SECURITIES RISK** is the risk that the U.S. government will not provide financial support to its agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Many U.S. government securities purchased by the Portfolio are not backed by the full faith and credit of the United States. It is possible that the issuers of such securities will not have the funds to meet their payment obligations in the future.

As with any mutual fund, it is possible to lose money on an investment in the Portfolio. An investment in the Portfolio is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.

## PORTFOLIO PERFORMANCE

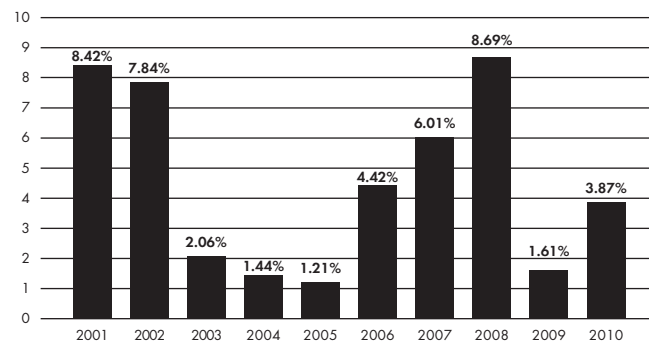
The bar chart and table that follow provide an indication of the risks of investing in the Portfolio by showing (A) changes in the performance of the Portfolio's Class A Shares from year to year, and (B) how the average annual total returns of the Portfolio's outstanding classes of shares compare to those of a broad-based securities market index.

There are no Class C Shares currently outstanding for the Portfolio.

The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

Updated performance information for the Portfolio is available and may be obtained on the Portfolio's Web site at [www.northernfunds.com/institutional](http://www.northernfunds.com/institutional) or by calling 800-637-1380.

## CALENDAR YEAR TOTAL RETURN (CLASS A)\*



\* For the periods shown in the bar chart above, the highest quarterly return was 4.98% in the fourth quarter of 2008, and the lowest quarterly return was (1.74)% in the second quarter of 2004.

## U.S. GOVERNMENT SECURITIES PORTFOLIO

## AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31, 2010)

	Inception Date	1-Year	5-Year	10-Year	Since Inception
Class A					
Return before taxes	4/5/93	3.87%	4.89%	4.52%	4.93%
Return after taxes on distributions		2.40%	3.42%	2.96%	3.08%
Return after taxes on distributions and sale of Portfolio shares		2.53%	3.32%	2.94%	3.07%
Class D return before taxes	9/15/94	3.17%	4.48%	4.11%	4.55%
Barclays Capital 1-5 Year U.S. Government Index (reflects no deduction for fees, expenses, or taxes)		3.57%	4.92%	4.59%	5.14%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns shown are not relevant to investors who hold their shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A Shares. After-tax returns for other classes will vary.

In calculating the federal income taxes due on redemptions, capital gains taxes resulting from redemptions are subtracted from the redemption proceeds and the tax benefits from capital losses resulting from the redemption are added to the redemption proceeds. Under certain circumstances, the addition of the tax benefits from capital losses resulting from redemptions may cause the Returns After Taxes on Distributions and Sale of Portfolio Shares to be greater than the Returns After Taxes on Distributions or even the Returns Before Taxes.

## MANAGEMENT

**INVESTMENT ADVISER AND PORTFOLIO MANAGER.** Northern Trust Investments, Inc., an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of the Portfolio. Daniel J. Personette, Vice President of Northern Trust Investments, Inc., has been manager of the Portfolio since November 2006.

## PURCHASE AND SALE OF PORTFOLIO SHARES

You may purchase Portfolio shares through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with Northern Institutional Funds (the "Trust") with a minimum initial investment of \$5 million in one or more of the Trust's portfolios. There is no minimum for subsequent investments.

On any business day, you may sell (redeem) or exchange shares through your institutional account by contacting your Northern Trust account representative or authorized intermediary. If you purchase shares directly from the Trust, you may sell (redeem) or exchange your shares in one of the following ways:

- By Mail – Send a written request to: Northern Institutional Funds, P.O. Box 75986, Chicago, Illinois 60675-5986.
- By Telephone – Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- By Wire – Authorize wire redemptions on your New Account Application and have proceeds sent by federal wire transfer to a previously designated bank account (the minimum redemption amount by this method is \$10,000).

## TAX INFORMATION

The Portfolio's distributions are generally taxable to you as ordinary income, capital gains, or a combination of the two, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

## PAYMENTS TO BROKERS-DEALERS AND OTHER FINANCIAL INTERMEDIARIES

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Portfolio and its related companies may pay the intermediary for the sale of Portfolio shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

**BROAD-BASED SECURITIES MARKET INDICES**

**THE BARCLAYS CAPITAL U.S. AGGREGATE INDEX** is an unmanaged index of prices of U.S. dollar-denominated, taxable, fixed rate, investment grade fixed-income securities with remaining maturities of one year and longer.

**THE BARCLAYS CAPITAL U.S. TREASURY INDEX** is an unmanaged index of prices of U.S. Treasury bonds with maturities of one to thirty years.

**THE BARCLAYS CAPITAL INTERMEDIATE U.S. GOVERNMENT/CREDIT INDEX** is an unmanaged index of prices of U.S. government and corporate bonds with remaining maturities of one to ten years.

**THE BARCLAYS CAPITAL 1-3 YEAR U.S. GOVERNMENT/CREDIT INDEX** is an unmanaged index of securities issued by the U.S. government and corporate bonds with maturities of one to three years.

**THE BARCLAYS CAPITAL 1-5 YEAR U.S. GOVERNMENT INDEX** is an unmanaged index of securities issued by the U.S. government and corporate bonds with maturities of one to five years.

**INVESTMENT ADVISER**

This Prospectus describes six fixed income portfolios (each a “Portfolio”, collectively, the “Portfolios”), which are currently offered by Northern Institutional Funds (the “Trust”).

Northern Trust Investments, Inc. (“NTI” or the “Investment Adviser,” formerly known and conducting business as Northern Trust Investments, N.A.), an indirect subsidiary of Northern Trust Corporation, serves as the Investment Adviser of each of the Portfolios. NTI is located at 50 South LaSalle Street, Chicago, IL 60603.

NTI is an Illinois state bank and an investment adviser registered under the Investment Advisers Act of 1940, as amended. It primarily manages assets for institutional and individual separately managed accounts, investment companies and bank common and collective funds.

Northern Trust Corporation is regulated by the Board of Governors of the Federal Reserve System as a financial holding company under the U.S. Bank Holding Company Act of 1956, as amended.

As of December 31, 2010, Northern Trust Corporation, through its affiliates, had assets under custody of \$4.1 trillion, and assets under investment management of \$643.6 billion.

Under the Advisory Agreement with the Trust, the Investment Adviser, subject to the general supervision of the Trust’s Board of Trustees, is responsible for making investment decisions for the Portfolios and for placing purchase and sale orders for portfolio securities.

## ADVISORY FEES

As compensation for advisory services and the assumption of related expenses, the Investment Adviser is entitled to an advisory fee, computed daily and payable monthly, at annual rates set forth in the table below (expressed as a percentage of each Portfolio's respective average daily net assets). The table also reflects the advisory fees (after fee waivers) paid by the Portfolios for the fiscal year ended November 30, 2010 (expressed as a percentage of each Portfolio's respective average daily net assets).

The difference, if any, between the contractual advisory fees and the actual advisory fees paid by the Portfolios reflects the fact that the Investment Adviser did not charge the full amount of the advisory fees to which it was entitled. For the period December 1, 2009 through March 31, 2010, the Investment Adviser voluntarily waived a portion of the advisory fees charged to the Portfolios, as shown in the table below. Starting April 1, 2010, the Investment Adviser contractually agreed to

waive a portion of the advisory fees charged to the Portfolios in the same amount that it previously voluntarily waived. The contractual waiver arrangements are expected to continue until at least April 1, 2012. After this date, the Investment Adviser or a Portfolio may terminate the contractual arrangements. The Board of Trustees may terminate the contractual arrangement at any time if it determines that it is in the best interests of the Portfolio and its shareholders.

The Investment Adviser may waive additional advisory fees of the Portfolios. Any such additional fee waiver would be voluntary and could be implemented, increased or decreased, or discontinued at any time.

A discussion regarding the Board of Trustees' basis for its most recent approval of the Portfolios' Advisory Agreement is available in the Portfolios' semiannual report to shareholders for the six-month period ended May 31, 2010.

Portfolio	Contractual Rate	Advisory Fee Paid for Fiscal Year Ended 11/30/2010
BOND	0.40%	0.25%
CORE BOND	0.40%	0.25%
U.S. TREASURY INDEX	0.30%	0.15%
INTERMEDIATE BOND	0.40%	0.25%
SHORT BOND	0.40%	0.25%
U.S. GOVERNMENT SECURITIES	0.40%	0.25%

**PORTFOLIO MANAGEMENT****BELOW IS INFORMATION REGARDING THE MANAGEMENT OF THE PORTFOLIOS.**

Unless otherwise provided below, for any Portfolio with more than one manager, each manager has full and joint responsibility for managing the Portfolio with no restrictions or limitations on such manager's role.

The manager for the **Bond**, **Core Bond** and **Intermediate Bond Portfolios** is Colin A. Robertson, Senior Vice President of Northern Trust. Mr. Robertson has been manager for the Bond, Core Bond and Intermediate Bond Portfolios since November 2003. Mr. Robertson joined Northern Trust in 1999 and manages various fixed-income portfolios.

The managers for the **Short Bond Portfolio** are Colin A. Robertson, Senior Vice President of Northern Trust, and Bradley Camden, Second Vice President of Northern Trust. Mr. Robertson has been a manager for the Short Bond Portfolio since September 2002. Mr. Camden has been a manager for the Short Bond Portfolio since November 1, 2010. Mr. Camden joined Northern Trust in 2005 and has assisted in the management of various fixed-income portfolios.

The manager for the **U.S. Government Securities Portfolio** is Daniel J. Personette, Vice President of Northern Trust. Mr. Personette has been manager for the U.S. Government Securities Portfolio since November 2006. Mr. Personette joined Northern Trust in 1996 and for the past five years has managed various fixed-income portfolios.

The manager for the **U.S. Treasury Index Portfolio** is Brandon P. Ferguson, Officer of Northern Trust. Mr. Ferguson joined Northern Trust in November 2007 and is an Associate Fixed Income Portfolio Manager. For the past three years, he has managed various fixed-income accounts for Northern Trust clients. From 2006 to 2007, Mr. Ferguson was a Commercial Credit Analyst at First Midwest Bank.

Additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers' ownership of securities in the Portfolios is available in the Statement of Additional Information ("SAI").

**OTHER PORTFOLIO SERVICES**

The Northern Trust Company (“TNTC,” together with NTI, referred to as “Northern Trust”) serves as Transfer Agent and Custodian for each Portfolio. The Transfer Agent performs various shareholder servicing functions, and any shareholder inquiries should be directed to it. In addition, NTI serves as Administrator for the Portfolios. TNTC also performs certain administrative services for the Portfolios pursuant to a sub-administration agreement with NTI. NTI pays TNTC for its sub-administration services out of its administration fees and TNTC’s fees do not represent additional expenses to the Portfolios.

NTI, as Administrator, is entitled to an administration fee from the Portfolios at the annual rate of 0.10% of the average daily net assets of each Portfolio. Under the Administration Agreement with the Trust, which may be amended by the Trust’s Board of Trustees without shareholder approval, NTI, as Administrator, has contractually agreed to reimburse expenses (including fees payable to NTI for its services as Administrator, but excluding management fees, transfer agency fees, service agent fees, taxes, interest and other extraordinary expenses) that exceed on an annualized basis 0.10% of each Portfolio’s average daily net assets. The Investment Adviser may reimburse additional expenses of the Portfolios. Any such additional expense reimbursement would be voluntary and could be implemented, increased or decreased, or discontinued at any time.

Pursuant to an exemptive order issued by the SEC concerning such arrangements, TNTC also may render securities lending services to the Portfolios. For such services, TNTC receives a percentage of securities lending revenue generated for each of the lending Portfolios. In addition, cash collateral received by a Portfolio in connection with a securities loan may be invested in shares of other registered or unregistered funds that pay investment advisory or other fees to NTI, TNTC or an affiliate.

TNTC, NTI and other Northern Trust affiliates may provide other services to the Portfolios and receive compensation for such services, if consistent with the Investment Company Act of 1940, as amended (the “1940 Act”) and the rules, exemptive orders and no-action letters issued by the SEC thereunder. Unless required, investors in a Portfolio may or may not receive specific notice of such additional services and fees.

Pursuant to an exemptive order issued by the SEC, each Portfolio may invest its uninvested cash in a money market fund advised by Investment Adviser or its affiliates. Accordingly, each Portfolio will bear indirectly a proportionate share of that money market fund’s operating expenses. These operating expenses include the advisory, administrative, transfer agency and custody fees that the money market fund pays to the Investment Adviser and/or its affiliates. It is expected that the uninvested cash of the Bond, Core Bond, Intermediate Bond and Short Bond Portfolios will be invested in the Trust’s Diversified Assets Portfolio and the uninvested cash of the U.S. Treasury Index and U.S. Government Securities Portfolios will be invested in the Trust’s Government Portfolio. The aggregate annual rate of advisory, administration, transfer agency and custody fees payable to the Investment Adviser and/or its affiliates on any assets invested in the Trust’s Diversified Assets or Government Portfolios is 0.35% of the average daily net asset value of those assets. However, pursuant to the exemptive order, Northern will reimburse each Portfolio for advisory fees otherwise payable by the Portfolio on any assets invested in the Diversified Assets or Government Portfolios.

Shares of the Trust are distributed by Northern Funds Distributors, LLC (“NFD”), Three Canal Plaza, Suite 100, Portland, Maine, 04101. NFD is not affiliated with TNTC, NTI or any other Northern Trust affiliate.

## PURCHASING AND SELLING SHARES

### THE TRUST OFFERS A SELECTION OF INVESTMENT PORTFOLIOS TO INSTITUTIONAL INVESTORS, EACH WITH A DISTINCT INVESTMENT OBJECTIVE AND RISK/REWARD PROFILE.

The descriptions in the Portfolio Summaries may help you choose the Portfolio or Portfolios that best fit your investment needs. Keep in mind, however, that no Portfolio can guarantee it will meet its investment objective, and no Portfolio should be relied upon as a complete investment program. The Trust also offers other investment portfolios, including asset allocation, equity, equity index and money market portfolios, which are described in separate prospectuses.

#### INVESTORS

Institutional investors, acting on their own behalf or on behalf of customers and other beneficial owners (“Customers”), may purchase shares of the Portfolios through their institutional accounts at Northern Trust or an affiliate. They also may purchase shares directly from the Trust. There is no sales charge imposed on purchases of shares. Institutional investors include:

- Defined contribution plans having at least \$30 million in assets or annual contributions of at least \$5 million;
- Corporations, partnerships, business trusts, and other institutions and organizations; and
- Northern Trust personal financial services clients having at least \$500 million in total assets at Northern Trust.

#### SHARE CLASSES

The Portfolios are authorized to offer a choice of three classes of shares to meet the special needs of institutional investors (“Institutions”): Class A, Class C and Class D Shares.

**CLASS A SHARES** are designed for Institutions that can obtain information about their shareholder accounts and do not require the additional services available to other classes.

**CLASS C SHARES** are designed for Institutions that require the Transfer Agent and a Service Organization (as defined on page 34) to provide certain account-related services incident to Customers being the beneficial owners of shares.

**CLASS D SHARES** are designed for Institutions that require the Transfer Agent and a Service Organization to provide them and their Customers with certain account-related services and other information.

Each class of shares represents pro rata interests in a Portfolio except that different shareholder service agent and transfer agency fees are payable by each class of shares due to the

varying levels of administrative support and transfer agency services provided to the class. In addition, any person entitled to receive compensation for servicing shares of a Portfolio may receive different compensation with respect to one particular class of shares over another in the same Portfolio.

Please note that the fee and expense information shown under “Fees and Expenses” in the Portfolio Summaries beginning on page 3 does not reflect any charges that may be imposed by TNTC, its affiliates, correspondent banks and other institutions on their Customers (as defined above). (For more information, please see “Account Policies and Other Information—Financial Intermediaries” on page 34.)

#### PURCHASING SHARES

You may purchase shares of the Portfolios through your institutional account at Northern Trust (or an affiliate) or an authorized intermediary or you may open an account directly with the Trust with a minimum initial investment of \$5 million in one or more Portfolios. There is no minimum for subsequent investments. Northern Trust personal financial services client assets to be invested in a Portfolio must be in a custody and/or investment management account(s) on Northern Trust’s trust/custody account platform.

#### OPENING AN ACCOUNT

**THROUGH AN INSTITUTIONAL ACCOUNT.** If you are opening an institutional account at Northern Trust, a Northern Trust representative can assist you with all phases of your investment. To purchase shares through your account, contact your Northern Trust representative for further information.

**THROUGH AN AUTHORIZED INTERMEDIARY.** The Trust may authorize certain Institutions acting as financial intermediaries (including banks, trust companies, brokers and investment advisers) to accept purchase orders from their Customers on behalf of the Portfolios. See “Account Policies and Other Information—Financial Intermediaries” on page 34 for additional information regarding purchases of Portfolio shares through authorized intermediaries.

**DIRECTLY FROM THE TRUST.** An Institution may open a shareholder account and purchase shares directly from the Trust as described above under “Purchasing Shares.”

For your convenience, there are a number of ways to invest directly in the Portfolios:

**BY MAIL**

- Read this Prospectus carefully.
- Complete and sign the New Account Application.
- Include a Northern Institutional Funds Certification Form or other acceptable evidence of authority (if applicable).
- Enclose a check or Federal Reserve draft payable to Northern Institutional Funds.
- Mail your check, Northern Institutional Funds Certification Form or other acceptable evidence of authority (if applicable) and completed New Account Application to:

Northern Institutional Funds  
P.O. Box 75986  
Chicago, Illinois 60675-5986

- Additional documentation may be required to fulfill the requirements of the “Customer Identification Program” described on page 33.

All checks must be payable in U.S. dollars and drawn on a bank located in the United States. Cash and third party checks are not acceptable.

- For overnight delivery, use the following address:

Northern Institutional Funds  
801 South Canal Street  
Chicago, Illinois 60607

**BY TELEPHONE**

- Read this Prospectus carefully.
- Call the Northern Institutional Funds Center at 800-637-1380.

**TO OPEN A NEW ACCOUNT PLEASE PROVIDE:**

- The name of the Portfolio in which you would like to invest
- The number of shares or dollar amount to be invested
- The method of payment

**TO ADD TO AN EXISTING ACCOUNT, PLEASE PROVIDE:**

- The Institution’s name
- Your account number

**BY WIRE OR AUTOMATED CLEARING HOUSE (“ACH”) TRANSFER****TO OPEN A NEW ACCOUNT:**

- For more information or instructions regarding the purchase of shares, call the Northern Institutional Funds Center at 800-637-1380.

**TO ADD TO AN EXISTING ACCOUNT:**

- Have your bank wire federal funds or effect an ACH transfer to:

The Northern Trust Company  
Chicago, Illinois  
ABA Routing No. 0710-00152  
(Reference 10-Digit Portfolio account number, with no spaces (e.g., #####))  
(Reference Shareholder’s Name)

**SELLING SHARES**

**THROUGH AN INSTITUTIONAL ACCOUNT.** Institutions may sell (redeem) shares through their institutional account by contacting their Northern Trust account representative.

**THROUGH AN AUTHORIZED INTERMEDIARY.** Institutions that purchase shares from an authorized intermediary may sell (redeem) shares by contacting their financial intermediary. See “Account Policies and Other Information—Financial Intermediaries” on page 34 for additional information regarding sales (redemptions) of Portfolio shares through authorized intermediaries.

**DIRECTLY THROUGH THE TRUST.** Institutions that purchase shares directly from the Trust may redeem their shares through the Transfer Agent in one of the following ways:

**BY MAIL****SEND A WRITTEN REQUEST TO:**

Northern Institutional Funds  
P.O. Box 75986  
Chicago, Illinois 60675-5986

**THE LETTER OF INSTRUCTION MUST INCLUDE:**

- The signature of a duly authorized person (A signature guarantee from an institution participating in the Stock Transfer Agency Medallion Program (“STAMP”) also may be required.)
- Your account number
- The name of the Portfolio
- The number of shares or the dollar amount to be redeemed

**BY TELEPHONE**

- Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- During periods of unusual economic or market activity, telephone redemptions may be difficult to implement. In such event, shareholders should follow the procedures outlined above under “Selling Shares—By Mail.”

**BY WIRE**

If you authorize wire redemptions on your New Account Application, you can redeem shares and have the proceeds sent by federal wire transfer to a previously designated bank account.

- Call the Northern Institutional Funds Center at 800-637-1380 for instructions.
- The minimum amount that may be redeemed by this method is \$10,000.

## ACCOUNT POLICIES AND OTHER INFORMATION

**PURCHASE AND REDEMPTION MINIMUMS.** There is a minimum initial investment of \$5 million in one or more Portfolios. There is no minimum for subsequent investments. A \$10,000 minimum applies for redemptions by wire. The Trust reserves the right to waive purchase and redemption minimums and to determine the manner in which a minimum is satisfied.

**CALCULATING SHARE PRICE.** The Trust issues shares and redeems shares at net asset value (“NAV”). The NAV for each share class of a Portfolio is calculated by dividing the value of the Portfolio’s net assets attributed to that class by the number of the Portfolio’s outstanding shares of that class. The NAV is calculated on each Business Day as of 3:00 p.m. Central time for each class. Portfolio shares may be priced on days when the New York Stock Exchange (the “Exchange”) is closed if the Securities Industry and Financial Markets Association (“SIFMA”) recommends that the bond markets remain open for all or part of the day. The NAV used in determining the price of your shares is the one calculated after your purchase, exchange or redemption order is received in good order as described on page 33.

Investments of the Portfolios for which market quotations are readily available are priced at their market value. If market quotations are not readily available, or if it is believed that such quotations do not accurately reflect fair value, the fair value of the Portfolios’ investments may be otherwise determined in good faith under procedures established by the Trustees. Circumstances in which securities may be fair valued include periods when trading in a security is suspended, the exchange or market on which a security trades closes early, the trading volume in a security is limited, corporate actions and announcements take place, or regulatory news is released such as governmental approvals. Additionally, the Trust, in its discretion, may make adjustments to the prices of securities held by a Portfolio if an event occurs after the publication of market values normally used by a Portfolio but before the time as of which the Portfolio calculates its NAV, depending on the nature and significance of the event, consistent with applicable regulatory guidance and the Trust’s fair value procedures. This may occur particularly with respect to certain foreign securities held by a Portfolio, in which case the Trust may use adjustment factors obtained from an independent evaluation service that are intended to reflect more accurately the value of those securities as of the time the Portfolio’s NAV is calculated. Other events that can trigger fair valuing of foreign securities include, for example, significant fluctuations in general market indicators, governmental actions, or natural disasters. The use of fair valuation involves the risk that the values used by the Portfolios to price their investments may be higher or lower than the values used by other unaffiliated investment companies and investors to price the same investments. Short-term obligations, which are debt instruments with a maturity of

60 days or less, held by a Portfolio are valued at their amortized cost, which, according to the Investment Adviser, approximates market value.

A Portfolio may hold foreign securities that trade on weekends or other days when the Portfolio does not price its shares. Therefore, the value of such securities may change on days when shareholders will not be able to purchase or redeem shares.

**TIMING OF PURCHASE REQUESTS.** Purchase requests received in good order and accepted by the Transfer Agent or other authorized intermediary by 3:00 p.m. Central time on any Business Day will be executed the day they are received by either the Transfer Agent or other authorized intermediary, at that day’s closing share price for the applicable Portfolio(s), provided that one of the following occurs:

- The Transfer Agent receives payment by 3:00 p.m. Central time on the same Business Day;
- The requests are placed by a financial or authorized intermediary that has entered into a servicing agreement with the Trust and payment in federal or other immediately available funds is received by the Transfer Agent by the close of the same Business Day or on the next Business Day, depending on the terms of the Trust’s agreement with the intermediary; or
- Payment in federal or other immediately available funds is received by the next Business Day in an institutional account maintained with Northern Trust or an affiliate.

Purchase requests received in good order by the Transfer Agent or other authorized intermediary on a non-Business Day or after 3:00 p.m. Central time on a Business Day will be executed on the next Business Day, at that day’s closing share price for the applicable Portfolio(s), provided that payment is made as noted above. If an Institution pays for shares by check, federal funds generally will become available within two Business Days after a purchase order is received.

### MISCELLANEOUS PURCHASE INFORMATION.

- Institutions are responsible for transmitting purchase orders and delivering required funds on a timely basis.
- Institutions are responsible for all losses and expenses of a Portfolio, and purchase orders may be cancelled, in the event of any failure to make payment according to the procedures outlined in this Prospectus. In addition, a \$20 charge will be imposed if a check does not clear.
- Exchanges into the Portfolios from another Portfolio in the Trust may be subject to any redemption fee imposed by the other Portfolio.

- The Trust reserves the right to reject any purchase order. The Trust also reserves the right to change or discontinue any of its purchase procedures.
- In certain circumstances, the Trust may advance the time by which purchase orders must be received. See “Early Closings” on page 33.
- If the Transfer Agent cannot locate an investor, the investor’s account may be deemed legally abandoned and then escheated (transferred) to the appropriate state’s unclaimed property administrator in accordance with statutory requirements.

**TIMING OF REDEMPTION AND EXCHANGE REQUESTS.**

Redemption and exchange requests received in good order by the Transfer Agent or other authorized intermediary on a Business Day by 3:00 p.m. Central time will be executed on the same day at that day’s closing share price for the applicable Portfolio(s).

Redemption and exchange requests received in good order by the Transfer Agent or other authorized intermediary on a non-Business Day or after 3:00 p.m. Central time on a Business Day will be executed the next Business Day at that day’s closing share price for the applicable Portfolio(s).

**PAYMENT OF REDEMPTION PROCEEDS.** Redemption proceeds normally will be sent or credited on the Business Day following the Business Day on which such redemption request is received in good order by the deadline noted above. However, if you have recently purchased shares with a check or through an electronic transaction, payment may be delayed as discussed below under “Miscellaneous Redemption Information.”

**MISCELLANEOUS REDEMPTION INFORMATION.** All redemption proceeds will be sent by check unless the Transfer Agent is directed otherwise. Redemption proceeds also may be wired. Redemptions are subject to the following restrictions:

- The Trust may require any information from the shareholder reasonably necessary to ensure that a redemption request has been duly authorized.
- Redemption requests made to the Transfer Agent by mail must be signed by a person authorized by acceptable documentation on file with the Transfer Agent.
- The Trust reserves the right to defer crediting, sending or wiring redemption proceeds for up to 7 days (or such longer period permitted by the SEC) after receiving the redemption order if, in its judgment, an earlier payment could adversely affect a Portfolio.
- If you are redeeming recently purchased shares by check or electronic transaction, your redemption request may not be paid until your check or electronic transaction has cleared. This may delay your payment for up to 10 days.

- Institutions are responsible for transmitting redemption orders and crediting their Customers’ accounts with redemption proceeds on a timely basis.
- The Trust and the Transfer Agent reserve the right to redeem shares held by any shareholder who provides incorrect or incomplete account information or when such involuntary redemptions are necessary to avoid adverse consequences to the Trust and its shareholders or the Transfer Agent.
- The Trust reserves the right to change or discontinue any of its redemption procedures.
- The Trust does not permit redemption proceeds to be sent by outgoing International ACH Transaction (“IAT”). An IAT is a payment transaction involving a financial institution’s office located outside U.S. territorial jurisdiction.
- In certain circumstances, the Trust may advance the time by which redemption and exchange orders must be received. See “Early Closings” on page 33.

**EXCHANGE PRIVILEGES.** Institutions and their Customers (to the extent permitted by their account agreements) may exchange shares of a Portfolio for the same class of shares of another investment portfolio of the Trust only if the registration of both accounts is identical. Both accounts must have the same owner’s name and title, if applicable. A \$1,000 minimum investment applies to exchanges. An exchange is a redemption of shares of one Portfolio and the purchase of the same class of shares of another investment portfolio in the Trust. If the shares redeemed are held in a taxable account, an exchange is considered a taxable event and may result in a gain or loss. The Trust reserves the right to waive or modify minimum investment requirements in connection with exchanges.

The Trust reserves the right to change or discontinue the exchange privilege at any time upon 60 days’ written notice to shareholders and to reject any exchange request. Exchanges are only available in states where an exchange can legally be made. Before making an exchange, you should read the Prospectus for the shares you are acquiring.

**POLICIES AND PROCEDURES ON EXCESSIVE TRADING**

**PRACTICES.** In accordance with the policy adopted by the Board of Trustees, the Trust discourages market timing and other excessive trading practices. Purchases and exchanges should be made with a view to longer-term investment purposes only. Excessive, short-term (market timing) trading practices may disrupt portfolio management strategies, increase brokerage and administrative costs, harm Portfolio performance and result in dilution in the value of Portfolio shares held by long-term shareholders. The Trust and Northern Trust reserve the right to reject or restrict purchase or exchange requests from

any investor. The Trust and Northern Trust will not be liable for any loss resulting from rejected purchase or exchange orders. To minimize harm to the Trust and its shareholders (or Northern Trust), the Trust (or Northern Trust) will exercise this right if, in the Trust's (or Northern Trust's) judgment, an investor has a history of excessive trading or if an investor's trading, in the judgment of the Trust (or Northern Trust), has been or may be disruptive to a Portfolio. In making this judgment, trades executed in multiple accounts under common ownership or control may be considered together to the extent they can be identified. No waivers of the provisions of the policy established to detect and deter market timing and other excessive trading activity are permitted that would harm the Trust or its shareholders or would subordinate the interests of the Trust or its shareholders to those of Northern Trust or any affiliated person or associated person of Northern Trust.

To deter excessive shareholder trading, a shareholder is restricted to no more than two "round trips" in a Portfolio during a calendar quarter. A "round trip" is a redemption or exchange out of a Portfolio followed by a purchase or exchange into the same Portfolio. The Trust is authorized to permit more than two "round trips" in a Portfolio during a calendar quarter if the Trust determines in its reasonable judgment that the Trust's excessive trading policies would not be violated. Examples of such transactions include, but are not limited to, trades involving:

- asset allocation programs, wrap fee programs and other investment programs offered by financial institutions where investment decisions are made on a discretionary basis by investment professionals;
- systematic withdrawal plans and automatic exchange plans;
- reinvestment of dividends, distributions or other payments;
- a death or post-purchase disability of the beneficial owner of the account;
- minimum required distributions from retirement accounts;
- the return of excess contributions in retirement accounts; and
- redemptions initiated by a Portfolio.

Pursuant to the policy adopted by the Board of Trustees, the Trust has developed criteria that it uses to identify trading activity that may be excessive. The Trust reviews on a regular and periodic basis available information relating to the trading activity in the Portfolios in order to assess the likelihood that a Portfolio may be the target of excessive trading. As part of its excessive trading surveillance process, the Trust, on a periodic basis, examines transactions that exceed certain monetary thresholds or numerical limits within a period of time. If, in its judgment, the Trust detects excessive, short-term trading, whether or not the shareholder has made two round trips in a

calendar quarter, the Trust may reject or restrict a purchase or exchange request and may further seek to close an investor's account with a Portfolio. The Trust may modify its surveillance procedures and criteria from time to time without prior notice regarding the detection of excessive trading or to address specific circumstances. The Trust will apply the criteria in a manner that, in the Trust's judgment, will be uniform.

Portfolio shares may be held through omnibus arrangements maintained by intermediaries such as broker-dealers, investment advisers, transfer agents, administrators and insurance companies. In addition, Portfolio shares may be held in omnibus 401(k) plans, retirement plans and other group accounts. Omnibus accounts include multiple investors and such accounts typically provide the Portfolios with a net purchase or redemption request on any given day where the purchases and redemptions of Portfolio shares by the investors are netted against one another. The identities of individual investors whose purchase and redemption orders are aggregated are not known by the Portfolios. While Northern Trust may monitor share turnover at the omnibus account level, a Portfolio's ability to monitor and detect market timing by shareholders in these omnibus accounts is limited. The netting effect makes it more difficult to identify, locate and eliminate market timing activities. In addition, those investors who engage in market timing and other excessive trading activities may employ a variety of techniques to avoid detection. There can be no assurance that the Portfolios and Northern Trust will be able to identify all those who trade excessively or employ a market timing strategy, and curtail their trading in every instance.

If necessary, the Trust may prohibit additional purchases of Portfolio shares by a financial intermediary or by certain of the intermediary's Customers. Financial intermediaries also may monitor their Customers' trading activities in the Trust. Certain financial intermediaries may monitor their Customers for excessive trading according to their own excessive trading policies. The Trust may rely on these financial intermediaries' excessive trading policies in lieu of applying the Trust's policies. The financial intermediaries' excessive trading policies may differ from the Trust's policies, and there is no assurance that the procedures used by financial intermediaries will be able to curtail excessive trading activity in the Trust.

**IN-KIND PURCHASES AND REDEMPTIONS.** The Trust reserves the right to accept payment for shares in the form of securities that are permissible investments for a Portfolio. The Trust also reserves the right to pay redemptions by a distribution "in-kind" of securities (instead of cash) from a Portfolio. See the SAI for further information about the terms of these purchases and redemptions.

**TELEPHONE TRANSACTIONS.** All calls may be recorded or monitored. The Transfer Agent has adopted procedures in an effort to establish reasonable safeguards against fraudulent telephone transactions. If reasonable measures are taken to verify that telephone instructions are genuine, the Trust and its service providers will not be responsible for any loss resulting from fraudulent or unauthorized instructions received over the telephone. In these circumstances, shareholders will bear the risk of loss. During periods of unusual market activity, you may have trouble placing a request by telephone. In this event, consider sending your request in writing.

The proceeds of redemption orders received by telephone will be sent by check, wire or transfer according to proper instructions. All checks will be made payable to the shareholder of record and mailed only to the shareholder's address of record.

The Trust reserves the right to refuse a telephone redemption.

**MAKING CHANGES TO YOUR ACCOUNT INFORMATION.** You may make changes to wiring instructions only in writing. You may make changes to an address of record or certain other account information in writing or by telephone. Written instructions must be accompanied by a completed Northern Institutional Funds Certification Form or other acceptable evidence of authority (if applicable). A signature guarantee also may be required from an institution participating in STAMP. Additional requirements may be imposed. In accordance with SEC regulations, the Trust and Transfer Agent may charge a shareholder reasonable costs in locating a shareholder's current address.

**SIGNATURE GUARANTEES.** If a signature guarantee is required, it must be from an institution participating in STAMP, or other acceptable evidence of authority (if applicable) must be provided. Additional requirements may be imposed by the Trust. In addition to the situations described in this Prospectus, the Trust may require signature guarantees in other circumstances based on the amount of a redemption request or other factors.

**BUSINESS DAY.** A "Business Day" is each Monday through Friday when the Exchange is open for business. For any given calendar year, the Portfolios will be closed on the following holidays or as observed: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

**GOOD ORDER.** A purchase, redemption or exchange request is considered to be "in good order" when all necessary information is provided and all required documents are properly completed, signed and delivered, including a

completed Northern Institutional Funds Certification Form or other acceptable evidence of authority (if applicable). Additionally, a purchase order initiating the opening of an account will not be considered to be "in good order" unless the investor has provided all information required by the Trust's "Customer Identification Program" described below.

**CUSTOMER IDENTIFICATION PROGRAM.** Federal law requires the Trust to obtain, verify and record identifying information, which may include the name, business street address, taxpayer identification number or other identifying information for each investor who opens or reopens an account with the Trust. Applications without this information, or without an indication that a taxpayer identification number has been applied for, may not be accepted. After acceptance, to the extent permitted by applicable law or the Trust's customer identification program, the Trust reserves the right to: (a) place limits on account transactions until an investor's identity is verified; (b) refuse an investment in the Trust; or (c) involuntarily redeem an investor's shares and close an account in the event that an investor's identity is not verified. The Trust and its agents will not be responsible for any loss in an investor's account resulting from an investor's delay in providing all required identifying information or from closing an account and redeeming an investor's shares when an investor's identity is not verified.

**EARLY CLOSINGS.** The Portfolios reserve the right to advance the time for accepting purchase, redemption or exchange orders for same Business Day credit when the Exchange and/or the bond market close early, trading on the Exchange is restricted, an emergency arises or as otherwise permitted by the SEC. In addition, on any Business Day when SIFMA recommends that the bond markets close early, each Portfolio reserves the right to close at or prior to the SIFMA recommended closing time. If a Portfolio does so, it will cease granting same Business Day credit for purchase and redemption orders received at the Portfolio's closing time and credit will be given on the next Business Day. The Board of Trustees of the Portfolios also may, for any Business Day, decide to change the time as of which a Portfolio's NAV is calculated in response to new developments such as altered trading hours, or as otherwise permitted by the SEC.

**EMERGENCY OR UNUSUAL EVENTS.** In the event the Exchange does not open for business because of an emergency or unusual event, the Trust may, but is not required to, open one or more Portfolios for purchase, redemption and exchange transactions if the Federal Reserve wire payment system is open. To learn whether a Portfolio is open for business during an emergency situation or unusual event, please call 800-637-1380 or visit [northernfunds.com/institutional](http://northernfunds.com/institutional).

**FINANCIAL INTERMEDIARIES.** The Trust may authorize certain Institutions acting as financial intermediaries (including banks, trust companies, brokers and investment advisers) to accept purchase, redemption and exchange orders from their Customers on behalf of the Portfolios. These authorized intermediaries also may designate other intermediaries to accept such orders, if approved by the Trust. A Portfolio will be deemed to have received an order when the order is accepted by the authorized intermediary, and the order will be priced at the Portfolio's per share NAV next determined, provided that the authorized intermediary forwards the order (and payment for any purchase order) to the Transfer Agent on behalf of the Trust within agreed-upon time periods. If the order (or payment for any purchase order) is not received by the Transfer Agent within such time periods, the authorized intermediary may be liable for fees and losses and the transaction may be cancelled.

Certain financial intermediaries, including affiliates of Northern Trust, may perform (or arrange to have performed) various administrative support services for Customers who are the beneficial owners of Class C or D Shares through Servicing Agreements with the Trust ("Service Organizations"). These agreements are permitted under the Trust's Shareholder Servicing Plan. The level of support services required by an Institution and its Customers generally will determine whether they purchase Class A, C or D Shares.

These support services may include:

- processing purchase, exchange and redemption requests from investors;
- placing net purchase and redemption orders with the Transfer Agent;
- providing necessary personnel and facilities to establish and maintain investor accounts and records; and
- providing information periodically to investors showing their positions in Portfolio shares.

For their services, Service Organizations may receive fees from the Portfolios at an annual rate of up to 0.15% and 0.25% of the average daily NAV of Class C and Class D Shares, respectively. These fees will be borne exclusively by the beneficial owners of Class C and D Shares. Because these fees are paid out of the Portfolios' assets on an on-going basis, they will increase the cost of an investment in the Portfolios.

Northern Trust also may provide compensation to certain dealers and other financial intermediaries, including affiliates of Northern Trust, for marketing and distribution in connection with the Northern Institutional Funds. Northern Trust also may sponsor informational meetings, seminars and other similar programs designed to market the Northern Institutional

Funds. The amount of such compensation and payments may be made on a one-time and/or periodic basis, and may represent all or a portion of the annual fees earned by the Investment Adviser, (after adjustments). The additional compensation and payments will be paid by Northern Trust or its affiliates and will not represent an additional expense to the Trust or its shareholders. Such payments may provide incentives for financial intermediaries to make shares of the Portfolios available to their Customers, and may allow the Portfolios greater access to such parties and their Customers than would be the case if no payments were paid.

Customers purchasing shares of a Portfolio through a financial intermediary should read their account agreements with the financial intermediary carefully. A financial intermediary's requirements may differ from those listed in this Prospectus. A financial intermediary also may impose account charges, such as asset allocation fees, account maintenance fees, and other charges that will reduce the net return on an investment in a Portfolio. If a Customer has agreed with a particular financial intermediary to maintain a minimum balance and the balance falls below this minimum, the Customer may be required to redeem all or a portion of the Customer's investment in a Portfolio.

Conflict of interest restrictions may apply to the receipt of compensation by a Service Organization or other financial intermediary in connection with the investment of fiduciary funds in Portfolio shares. Institutions, including banks regulated by the Comptroller of the Currency, Federal Reserve Board and state banking commissions, and investment advisers and other money managers subject to the jurisdiction of the SEC, the Department of Labor or state securities commissions, are urged to consult their legal counsel.

State securities laws regarding the registration of dealers may differ from federal law. As a result, Service Organizations and other financial intermediaries investing in the Portfolios on behalf of their Customers may be required to register as dealers.

**PORTFOLIO HOLDINGS.** The Portfolios, or their duly authorized service providers, may publicly disclose holdings of all Northern Institutional Funds in accordance with regulatory requirements, such as periodic portfolio disclosure in filings with the SEC. A complete schedule of each Portfolio's holdings, current as of calendar quarter-end, except for the U.S. Treasury Index Portfolio, which will be current as of month-end, will be available on the Trust's Web site at [northernfunds.com/institutional](http://northernfunds.com/institutional) no earlier than ten (10) calendar days after the end of the respective period. This information will remain available on the Web site at least until the Portfolios file with the SEC their semiannual/annual shareholder report or quarterly portfolio holdings report that includes such period. The Portfolios may terminate or modify this policy at any time without further notice to shareholders.

A further description of the Trust's Policy on Disclosure of Portfolio Holdings is available in the SAI.

**SHAREHOLDER COMMUNICATIONS.** Shareholders of record will be provided each year with a semiannual report showing portfolio investments and other information as of May 31 and with an annual report containing audited financial statements as of November 30. If you have consented to the delivery of a single copy of shareholder reports, prospectuses, proxy statements or information statements to all shareholders who share the same mailing address with your account, you may revoke your consent at any time by contacting the Northern Institutional Funds Center by telephone at 800-637-1380 or by mail at Northern Institutional Funds, P.O. Box 75986, Chicago, IL 60675-5986. You also may send an e-mail to [northern-funds@ntrs.com](mailto:northern-funds@ntrs.com). The Portfolios will begin sending individual copies to you within 30 days after receipt of your revocation.

The Trust may reproduce this Prospectus in electronic format that may be available on the Internet. If you have received this Prospectus in electronic format you, or your representative, may contact the Transfer Agent for a free paper copy of this Prospectus by writing to the Northern Institutional Funds Center at P.O. Box 75986, Chicago, IL 60675-5986, calling 800-637-1380 or by sending an e-mail to: [northern-funds@ntrs.com](mailto:northern-funds@ntrs.com).

## DIVIDENDS AND DISTRIBUTIONS

**DIVIDENDS AND CAPITAL GAIN DISTRIBUTIONS OF EACH PORTFOLIO ARE AUTOMATICALLY REINVESTED IN ADDITIONAL SHARES OF THE SAME PORTFOLIO WITHOUT ANY SALES CHARGE.**

You may, however, elect to have dividends or capital gain distributions (or both) paid in cash or reinvested in the same class of shares of another Portfolio in the Trust at its NAV per share. If you would like to receive dividends or distributions in cash or have them reinvested in another Portfolio in the Trust, you must notify the Transfer Agent in writing. This election will become effective for distributions paid two days after its receipt by the Transfer Agent. Dividends and distributions only may be reinvested in a portfolio in the Trust in which you maintain an account.

The following table summarizes the general distribution policies for each of the Portfolios. A Portfolio may, in some years, pay additional dividends or make additional distributions to the extent necessary for the Portfolio to avoid incurring unnecessary tax liabilities or for other reasons.

Portfolio	Dividends, if any, Declared and Paid	Capital Gains, if any, Declared and Paid
BOND	Monthly	Annually
CORE BOND	Monthly	Annually
U.S. TREASURY INDEX	Monthly	Annually
INTERMEDIATE BOND	Monthly	Annually
SHORT BOND	Monthly	Annually
U.S. GOVERNMENT SECURITIES	Monthly	Annually

## TAX CONSIDERATIONS

The following is a summary of certain tax considerations that may be relevant to a shareholder in a Portfolio. The discussions of the federal tax consequences in this Prospectus and the SAI are based on the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations issued under it, and court decisions and administrative interpretations, as in effect on the date of this Prospectus. Future legislative or administrative changes or court decisions may significantly alter the statements included herein, and any such changes or decisions may be retroactive. Except where otherwise indicated, the discussion relates to shareholders who are individual U.S. citizens or residents and is based on current tax law. You should consult your tax advisor for further information regarding federal, state, local and/or foreign tax consequences relevant to your specific situation.

**DISTRIBUTIONS.** Each Portfolio intends to qualify as a regulated investment company for federal income tax purposes, and to distribute to shareholders substantially all of its net investment income and net capital gain each year. Except as otherwise noted below, you will generally be subject to federal income tax on a Portfolio’s distributions to you, regardless of whether they are paid in cash or reinvested in Portfolio shares. For federal income tax purposes, Portfolio distributions attributable to short-term capital gains and net investment income are taxable to you as ordinary income. Distributions attributable to net capital gain (the excess of net long-term capital gains over net short-term capital losses) of a Portfolio generally are taxable to you as long-term capital gains. This is true no matter how long you own your shares. The maximum long-term capital gain rate applicable to individuals, estates and trusts is currently 15%. However, currently a sunset provision provides that the 15% long-term capital gain rate will increase to 20% for taxable years beginning after December 31, 2012. Every year, the Trust will send you information detailing the amount of ordinary income and capital gains distributed to your account for the previous year.

The Portfolios will generally invest in debt instruments and not in shares of stock on which dividend income will be received. As a result, the Portfolios do not expect to pay dividends that are eligible for the reduced individual income tax rate currently applicable to qualified dividend income or that will qualify for the dividends-received deduction for corporations.

Distributions from each Portfolio will generally be taxable to you in the year in which they are paid, with one exception. Dividends and distributions declared by a Portfolio in October, November or December and paid in January of the following year are taxed as though they were paid on December 31.

You should note that if you buy shares of a Portfolio shortly before it makes a distribution, the distribution will be fully taxable to you even though, as an economic matter, it simply

represents a return of a portion of your investment. This adverse tax result is known as “buying into a dividend.”

**SALES AND EXCHANGES.** The sale, exchange, or redemption of Portfolio shares is a taxable event on which a gain or loss may be recognized. For federal income tax purposes, an exchange of shares of one Portfolio for shares of another investment portfolio in the Trust is considered the same as a sale. The amount of gain or loss is based on the difference between your tax basis in the Portfolio shares and the amount you receive for them upon disposition. Generally, you will recognize long-term capital gain or loss if you have held your Portfolio shares for over twelve months at the time you dispose of them. Gains and losses on shares held for twelve months or less will generally constitute short-term capital gains, except that a loss on shares held six months or less will be recharacterized as a long-term capital loss to the extent of any capital gains distributions that you have received on the shares. A loss realized on a sale or exchange of Portfolio shares may be disallowed under the so-called “wash sale” rules to the extent the shares disposed of are replaced with other shares of that same Portfolio within a period of 61 days beginning 30 days before and ending 30 days after the shares are disposed of, such as pursuant to a dividend reinvestment in shares of the Portfolio. If disallowed, the loss will be reflected in an upward adjustment to the basis of the shares acquired.

**IRAS AND OTHER TAX-QUALIFIED PLANS.** The one major exception to the preceding tax principles is that distributions on, and sales, exchanges and redemptions of, shares held in an IRA or other tax-qualified plan will not be currently taxable unless shares are acquired with borrowed funds.

**BACKUP WITHHOLDING.** The Trust will be required in certain cases to withhold and remit to the U.S. Treasury 28% of the dividends and gross sales proceeds paid to any shareholder (i) who had provided either an incorrect tax identification number or no number at all, (ii) who is subject to backup withholding by the Internal Revenue Service for failure to report the receipt of taxable interest or dividend income properly, or (iii) who has failed to certify to the Trust, when required to do so, that he or she is not subject to backup withholding or that he or she is an “exempt recipient.”

**U.S. TAX TREATMENT OF FOREIGN SHAREHOLDERS.**

Nonresident aliens, foreign corporations and other foreign investors in the Portfolios will generally be exempt from U.S. federal income tax on Portfolio distributions attributable to net capital gains and, in the case of distributions attributable to each Portfolio’s taxable years ending on or before November 30, 2012, net short-term capital gains, of the Portfolio. The exemption may not apply, however, if the investment in a Portfolio is connected to a trade or business of the foreign investor in the United States or if the foreign

investor is present in the United States for 183 days or more in a year and certain other conditions are met.

Portfolio distributions attributable to other categories of Portfolio income, such as dividends from companies whose securities are held by a Portfolio, will generally be subject to a 30% withholding tax when paid to foreign shareholders. The withholding tax may, however, be reduced (and, in some cases, eliminated) under an applicable tax treaty between the United States and a shareholder's country of residence or incorporation, provided that the shareholder furnishes the Portfolio with a properly completed Form W-8BEN to establish entitlement for these treaty benefits. Also, for each Portfolio's taxable years ending on or before November 30, 2012, Portfolio distributions attributable to and properly designated by a Portfolio as U.S.-source interest income of the Portfolio will be exempt from U.S. federal income tax for foreign investors, but such investors may need to file a federal income tax return to obtain a refund of any withholding taxes.

For the Portfolios' taxable years beginning after November 30, 2012, the exemption of foreign investors from U.S. federal income tax on Portfolio distributions attributable to U.S.-source interest income and short-term capital gains will be unavailable, but distributions attributable to long-term capital gains will continue to be exempt.

A foreign investor will generally not be subject to U.S. tax on gains realized on sales or exchanges of Portfolio shares unless the investment in the Portfolio is connected to a trade or business of the investor in the United States or if the investor is present in the United States for 183 days or more in a year and certain other conditions are met.

All foreign investors should consult their own tax advisors regarding the tax consequences in their country of residence of an investment in a Portfolio.

**STATE AND LOCAL TAXES.** You also may be subject to state and local taxes on income and gain attributable to your ownership of Portfolio shares. State income taxes may not apply, however, to the portions of a Portfolio's distributions, if any, that are attributable to interest earned by the Portfolios on U.S. government securities. You should consult your tax advisor regarding the tax status of distributions in your state and locality.

**CONSULT YOUR TAX PROFESSIONAL.** Your investment in the Portfolios could have additional tax consequences. You should consult your tax professional for information regarding all tax consequences applicable to your investments in a Portfolio. More tax information relating to the Portfolios is also provided in the SAI. This short summary is not intended as a substitute for careful tax planning.

## SECURITIES, TECHNIQUES AND RISKS

## ADDITIONAL INFORMATION ON INVESTMENT OBJECTIVES, PRINCIPAL INVESTMENT STRATEGIES AND RELATED RISKS

All investments carry some degree of risk that will affect the value of a Portfolio's investments, its investment performance and the price of its shares. As a result, loss of money is a risk of investing in each Portfolio.

This section takes a closer look at some of the Portfolios' principal investment strategies and related risks.

**INVESTMENT OBJECTIVES.** The investment objectives of the Core Bond Portfolio and Intermediate Bond Portfolio may be changed by the Trust's Board of Trustees without shareholder approval. Shareholders will, however, be notified of any changes. Any such change may result in a Portfolio having an investment objective different from the objective that the shareholder considered appropriate at the time of investment in the Portfolio. The investment objectives of the other Portfolios may not be changed without shareholder approval.

**ASSET-BACKED SECURITIES.** Asset-backed securities are sponsored by entities such as government agencies, banks, financial companies and commercial or industrial companies. Asset-backed securities represent participations in, or are secured by and payable from, pools of assets such as mortgages, automobile loans, credit card receivables and other financial assets. In effect, these securities "pass through" the monthly payments that individual borrowers make on their mortgages or other assets net of any fees paid to the issuers. Examples of these include guaranteed mortgage pass-through certificates, CMOs and real estate mortgage investment conduits ("REMICs"). Examples of asset-backed securities also include collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. A CBO is a trust typically collateralized by a pool that is backed by a diversified pool of high risk, below-investment-grade fixed-income securities. A CLO is a trust typically collateralized by a pool of loans that may include, among others, domestic and foreign senior secured loans; senior unsecured loans; and other subordinate corporate loans, including loans that may be rated below-investment-grade or equivalent unrated loans.

**INVESTMENT STRATEGY.** The U.S. Government Securities Portfolio may purchase securities that are secured or backed by mortgages issued by U.S. government agencies, instrumentalities or sponsored enterprises or guaranteed by the U.S. government. The Bond, Core Bond, Intermediate Bond, and Short Bond Portfolios may purchase these and other types of asset-backed securities. The Bond, Core Bond, Intermediate Bond and Short Bond Portfolios also may invest to a moderate extent in CDOs. Such securities are subject to the same quality

requirements as the other types of fixed-income securities that are held by a Portfolio.

**SPECIAL RISKS.** In addition to credit and market risk, asset-backed securities may involve prepayment risk because the underlying assets (loans) may be prepaid at any time. Prepayment (or call) risk is the risk that an issuer will exercise its right to pay principal on an obligation held by a Portfolio (such as a mortgage-backed security) earlier than expected. This may happen during a period of declining interest rates. Under these circumstances, a Portfolio may be unable to recoup all of its initial investment and will suffer from having to reinvest in lower yielding securities. The loss of higher yielding securities and the reinvestment at lower interest rates can reduce the Portfolio's income, total return and share price.

The value of these securities also may change because of actual or perceived changes in the creditworthiness of the originator, the service agent, the financial institution providing the credit support or the counterparty. Credit supports generally apply only to a fraction of a security's value. Like other fixed-income securities, when interest rates rise, the value of an asset-backed security generally will decline. However, when interest rates decline, the value of an asset-backed security with prepayment features may not increase as much as that of other fixed-income securities. In addition, non-mortgage asset-backed securities involve certain risks not presented by mortgage-backed securities. Primarily, these securities do not have the benefit of the same security interest in the underlying collateral. Credit card receivables generally are unsecured, and the debtors are entitled to the protection of a number of state and federal consumer credit laws. Automobile receivables are subject to the risk that the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing the receivables. If the issuer of the security has no security interest in the related collateral, there is the risk that a Portfolio could lose money if the issuer defaults. CBOs and CLOs are generally offered in tranches that vary in risk and yield. Both CBOs and CLOs can experience substantial losses due to actual defaults of the underlying collateral, increased sensitivity to defaults due to collateral default and disappearance of junior tranches that protect the more senior tranches, market anticipation of defaults and aversion to CBO or CLO securities as a class. As a result of the economic recession that commenced in the United States in 2008, there is a heightened risk that the receivables and loans underlying the asset-backed securities purchased by the Portfolios may suffer greater levels of default than were historically experienced.

In addition to prepayment risk, investments in mortgage-backed securities comprised of subprime mortgages and investments in other asset-backed securities of underperforming assets may be subject to a higher degree of

credit risk, valuation risk, and liquidity risk. Recently, delinquencies, defaults and losses on residential mortgage loans have increased substantially and may continue to increase, which may affect the performance of the mortgage-backed securities in which the Portfolios invest. The recent and unprecedented disruption in the residential mortgage-backed securities market (and in particular, the “subprime” residential mortgage market), the broader mortgage-backed securities market and the asset-backed securities market have resulted in downward price pressures and increasing foreclosures and defaults in residential and commercial real estate. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the mortgage market and a declining real estate market have contributed to increased volatility and diminished expectations for the economy and markets going forward, and have contributed to dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, and significant asset write-downs by financial institutions. These conditions have prompted a number of financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. The continuation or worsening of this general economic downturn may lead to further declines in income from, or the value of, real estate, including the real estate which secures the mortgage-backed securities held by certain of the Portfolios. Additionally, a lack of credit availability, higher mortgage rates and decreases in the value of real property have occurred and may continue to occur or worsen, and potentially prevent borrowers from refinancing their mortgages, which may increase the likelihood of default on their mortgage loans. These economic conditions also may adversely affect the amount of proceeds the holder of a mortgage loan or mortgage-backed securities (including the mortgage-backed securities in which certain of the Portfolios may invest) would realize in the event of a foreclosure or other exercise of remedies. Moreover, even if such mortgage-backed securities are performing as anticipated, the value of such securities in the secondary market may nevertheless fall or continue to fall as a result of deterioration in general market conditions for such mortgage-backed securities or other asset-backed or structured products. Trading activity associated with market indices also may drive spreads on those indices wider than spreads on mortgage-backed securities, thereby resulting in a decrease in value of such mortgage-backed securities, including the mortgage-backed securities owned by the Portfolios.

**CONVERTIBLE SECURITIES.** A convertible security is a bond or preferred stock that may be converted (exchanged) into the common stock of the issuing company within a specified time period for a specified number of shares. Convertible securities offer a way to participate in the capital appreciation of the common stock into which the securities are convertible, while

earning higher current income than is available from the common stock.

**INVESTMENT STRATEGY.** The Bond, Core Bond, Intermediate Bond and Short Bond Portfolios may each acquire convertible securities. These securities are subject to the same rating requirements as fixed-income securities held by a Portfolio.

**SPECIAL RISKS.** The price of a convertible security normally will vary in some proportion to changes in the price of the underlying common stock because of either a conversion or exercise feature. However, the value of a convertible security may not increase or decrease as rapidly as the underlying common stock. Additionally, a convertible security normally also will provide income and therefore is subject to interest rate risk. While convertible securities generally offer lower interest or dividend yields than non-convertible fixed-income securities of similar quality, their value tends to increase as the market value of the underlying stock increases and to decrease when the value of the underlying stock decreases. Also, a Portfolio may be forced to convert a security before it would otherwise choose, which may have an adverse effect on the Portfolio’s return and its ability to achieve its investment objective.

**CUSTODIAL RECEIPTS.** Custodial receipts are participations in trusts that hold U.S. government, bank, corporate or other obligations. They entitle the holder to future interest payments or principal payments or both on securities held by the custodian.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Portfolios may invest a portion of their assets in custodial receipts. Investments by the U.S. Treasury Index and U.S. Government Securities Portfolios in custodial receipts, if any, are anticipated to be minimal and will not exceed 20% of the value of such Portfolios’ net assets.

**SPECIAL RISKS.** Like other stripped securities (which are described below), custodial receipts may be subject to greater price volatility than ordinary debt obligations because of the way in which their principal and interest are returned to investors.

**FOREIGN INVESTMENTS.** Foreign securities include direct investments in non-U.S. dollar-denominated securities traded primarily outside of the United States and dollar-denominated securities of foreign issuers. Foreign securities also include indirect investments such as American Depositary Receipts (“ADRs”), European Depositary Receipts (“EDRs”) and Global Depositary Receipts (“GDRs”). ADRs are U.S. dollar-denominated receipts representing shares of foreign-based corporations. ADRs are receipts that are traded in the U.S., and entitle the holder to all dividend and capital gain distributions that are paid out on the underlying foreign shares. EDRs and

GDRs are receipts that often trade on foreign exchanges. They represent ownership in an underlying foreign or U.S. security and generally are denominated in a foreign currency. Foreign government obligations may include debt obligations of supranational entities, including international organizations (such as the European Coal and Steel Community and the International Bank for Reconstruction and Development, also known as the World Bank) and international banking institutions and related government agencies.

**INVESTMENT STRATEGY.** Although they invest primarily in securities of U.S. issuers, the Bond, Intermediate Bond and Short Bond Portfolios are permitted to invest up to 25% of their total assets in foreign securities including a portion in ADRs, EDRs and GDRs. These Portfolios also may invest in foreign time deposits and other short-term instruments. The Core Bond Portfolio may invest up to 25% of its total assets in the U.S. dollar denominated securities of foreign issuers. The U.S. Government Securities Portfolio may make limited investments (but in no event more than 20% of its net assets) in supranational obligations.

**SPECIAL RISKS.** Foreign securities involve special risks and costs, which are considered by the Investment Adviser in evaluating the creditworthiness of issuers and making investment decisions for the Portfolios. Foreign securities fluctuate in price because of political, financial, social and economic events in foreign countries. A foreign security could also lose value because of more or less stringent foreign securities regulations and less stringent accounting and disclosure standards. In addition, foreign markets may have greater volatility than domestic markets and foreign securities may be less liquid and harder to value than domestic securities.

Foreign securities, and in particular foreign debt securities, are sensitive to changes in interest rates. In addition, investment in the securities of foreign governments involves the risk that foreign governments may default on their obligations or may otherwise not respect the integrity of their obligations. The performance of investments in securities denominated in a foreign currency also will depend, in part, on the strength of the foreign currency against the U.S. dollar and the interest rate environment in the country issuing the currency. Absent other events which otherwise could affect the value of a foreign security (such as a change in the political climate or an issuer's credit quality), appreciation in the value of the foreign currency generally results in an increase in value of a foreign currency-denominated security in terms of U.S. dollars. A decline in the value of the foreign currency relative to the U.S. dollar generally results in a decrease in value of a foreign currency-denominated security. Additionally, many countries throughout the world are dependent on a healthy U.S. economy and are adversely affected when the U.S. economy

weakens or its markets decline. For example, the recent decline in the U.S. subprime mortgage market quickly spread throughout global credit markets, triggering a liquidity crisis that affected fixed-income and equity markets around the world.

Investment in foreign securities may involve higher costs than investment in U.S. securities, including higher transaction and custody costs as well as the imposition of additional taxes by foreign governments. Foreign investments also may involve risks associated with the level of currency exchange rates, less complete financial information about the issuers, less market liquidity, more market volatility and political instability. Future political and economic developments, the possible imposition of withholding taxes on dividend income, the possible seizure or nationalization of foreign holdings, the possible establishment of exchange controls or freezes on the convertibility of currency, or the adoption of other governmental restrictions might adversely affect an investment in foreign securities. Additionally, foreign banks and foreign branches of domestic banks may be subject to less stringent reserve requirements and to different accounting, auditing and recordkeeping requirements.

Additional risks are involved when investing in countries with emerging economies or securities markets. These countries generally are located in the Asia and Pacific regions, the Middle East, Eastern Europe, Central and South America and Africa. Political and economic structures in many of these countries may be undergoing significant evolution and rapid development, and these countries may lack the social, political and economic stability characteristics of developed countries. In general, the securities markets of these countries are less liquid, are subject to greater price volatility, have smaller market capitalizations and have problems with securities registration and custody. In addition, because the securities settlement procedures are less developed in these countries, a Portfolio may be required to deliver securities before receiving payment and also may be unable to complete transactions during market disruptions. As a result of these and other risks, investments in these countries generally present a greater risk of loss to the Portfolios.

While the Portfolios' investments may, if permitted, be denominated in foreign currencies, the portfolio securities and other assets held by the Portfolios are valued in U.S. dollars. Price fluctuations may occur in the dollar value of foreign securities because of changing currency exchange rates or, in the case of hedged positions, because the U.S. dollar declines in value relative to the currency hedged. Currency exchange rates may fluctuate significantly over short periods of time causing a Portfolio's NAV to fluctuate as well. Currency exchange rates can be affected unpredictably by the intervention or the failure

to intervene by U.S. or foreign governments or central banks, or by currency controls or political developments in the U.S. or abroad. To the extent that a Portfolio is invested in foreign securities while also maintaining currency positions, it may be exposed to greater combined risk. The Portfolios' respective net currency positions may expose them to risks independent of their securities positions.

A Portfolio's assets may be concentrated in countries located in the same geographic region. This concentration will subject the Portfolio to risks associated with that particular region, such as general and local economic, political and social conditions. A Portfolio may invest more than 25% of its total assets in the securities of issuers located in a single country, and such an investment will subject the Portfolio to increased foreign securities risk with respect to the particular country.

On January 1, 1999, the European Economic and Monetary Union ("EMU") introduced a new single currency called the euro. The euro has replaced the national currencies of many European countries.

The European Central Bank has control over each member country's monetary policies. Therefore, the member countries no longer control their own monetary policies by directing independent interest rates for their currencies. The national governments of the participating countries, however, have retained the authority to set tax and spending policies and public debt levels.

The change to the euro as a single currency is relatively new and untested. The elimination of the currency risk among EMU countries has affected the economic environment and behavior of investors, particularly in European markets, but the long-term impact of those changes on currency values or on the business or financial condition of European countries and issuers cannot fully be assessed at this time. In addition, the introduction of the euro presents other unique uncertainties, including the fluctuation of the euro relative to non-euro currencies; whether the interest rate, tax and labor regimes of European countries participating in the euro will converge over time; and whether the conversion of the currencies of other countries that now are or may in the future become members of the European Union ("EU") will have an impact on the euro. Also, it is possible that the euro could be abandoned in the future by countries that have already adopted its use. These or other events, including political and economic developments, could cause market disruptions, and could affect adversely the values of securities held by the Portfolios. Because of the number of countries using this single currency, a significant portion of the assets held by certain Portfolios may be denominated in the euro.

**INTEREST RATES.** Generally, when interest rates rise, prices of fixed-income securities fall. However, market factors, such as

the demand for particular fixed-income securities, may cause the price of certain fixed-income securities to fall while the prices of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed-income securities with longer durations. Duration measures the price sensitivity of a fixed-income security to changes in interest rates. Certain factors, such as the presence of call features, may cause a particular fixed-income security, or a Portfolio as a whole, to exhibit less sensitivity to changes in interest rates.

**INVESTMENT GRADE SECURITIES.** A security is considered investment grade if, at the time of purchase, it is rated:

- BBB or higher by Standard & Poor's Rating Services ("S&P");
- Baa3 or higher by Moody's Investors Service, Inc. ("Moody's");
- BBB or higher by Fitch Ratings ("Fitch"); or
- BBB or higher by Dominion Bond Rating Service Limited ("Dominion").

A security will be considered investment grade if it receives one of the above ratings, or a comparable rating from another organization that is recognized as a NRSRO, even if it receives a lower rating from other rating organizations. An unrated security also may be considered investment grade if the Investment Adviser determines that the security is comparable in quality to a security that has been rated investment grade.

**INVESTMENT STRATEGY.** All of the Portfolios invest in fixed-income securities, and some invest in convertible securities to the extent consistent with their respective investment objectives and strategies. Except as stated in the section entitled "Non-Investment Grade Securities," fixed-income and convertible securities purchased by the Portfolios generally will be investment grade.

**SPECIAL RISKS.** Although securities rated BBB by S&P, Dominion or Fitch, or Baa3 by Moody's are considered investment grade, they have certain speculative characteristics. Therefore, they may be subject to a higher risk of default than obligations with higher ratings. Subsequent to its purchase by a Portfolio, a rated security may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Portfolio and may be in default. The Investment Adviser will consider such an event in determining whether the Portfolio should continue to hold the security. Generally, the lower the credit rating of a security, issuer, guarantor or counterparty, the higher the degree of risk as to payment of interest and return of capital.

**MARKET RISK** is the risk that the value of the securities in which a Portfolio invests may go up or down in response to the prospects of individual issuers and/or general economic

conditions. Securities markets may experience great short-term volatility and may fall sharply at times. Different markets may behave differently from each other and a foreign market may move in the opposite direction from the U.S. market. Price changes may be temporary or last for extended periods. You could lose money over short periods due to fluctuation in a Portfolio's NAV in response to market movements, and over longer periods during market downturns.

Recently, U.S. and international markets experienced extraordinary volatility, substantially lower valuations, reduced liquidity, credit downgrades, increased likelihood of default and valuation difficulties. As a result, many of the risks described in this Prospectus may be heightened. The U.S. government has taken numerous steps to alleviate these market concerns, including without limitation, acquiring ownership interests in distressed institutions. However, there is no assurance that such actions will be successful. Continuing market problems and government intervention in the economy may adversely affect the Portfolios.

**MATURITY RISK.** Each Portfolio normally will maintain the dollar-weighted average maturity of its portfolio within a specified range. However, the maturities of certain instruments, such as variable and floating rate instruments, are subject to estimation. In addition, in calculating average weighted maturities, the maturity of mortgage and other asset-backed securities will be based on estimates of average life. As a result, the Portfolios cannot guarantee that these estimates will, in fact, be accurate or that their average maturities will remain within their specified limits.

**NON-INVESTMENT GRADE SECURITIES.** Non-investment grade fixed-income and convertible securities (sometimes referred to as "junk bonds") generally are rated BB or below by S&P, Dominion or Fitch, or Ba or below by Moody's (or have received a comparable rating from another NRSRO), or, if unrated, are determined to be of comparable quality by the Investment Adviser.

**INVESTMENT STRATEGY.** The Bond, Intermediate Bond and Short Bond Portfolios may invest up to 20% of their total assets, measured at the time of purchase, in non-investment grade fixed-income securities and in convertible securities, when the investment management team determines that such securities are desirable in light of the Portfolios' investment objectives and portfolio mix.

**SPECIAL RISKS.** Non-investment grade fixed-income and convertible securities are considered predominantly speculative by traditional investment standards. The market value of these low-rated securities tends to be more sensitive to individual corporate developments and changes in interest rates and economic conditions than higher-rated securities. In addition,

they generally present a higher degree of credit risk. Issuers of low-rated securities are often highly leveraged, so their ability to repay their debt during an economic downturn or periods of rising interest rates may be impaired. The risk of loss due to default by these issuers also is greater because low-rated securities generally are unsecured and often are subordinated to the rights of other creditors of the issuers of such securities. Investment by a Portfolio in defaulted securities poses additional risk of loss should nonpayment of principal and interest continue in respect of such securities. Even if such securities are held to maturity, recovery by a Portfolio of its initial investment and any anticipated income or appreciation will be uncertain. A Portfolio also may incur additional expenses in seeking recovery on defaulted securities.

The secondary market for lower quality securities is concentrated in relatively few market makers and is dominated by institutional investors. Accordingly, the secondary market for such securities is not as liquid as, and is more volatile than, the secondary market for higher quality securities. In addition, market trading volume for these securities generally is lower and the secondary market for such securities could contract under adverse market or economic conditions, independent of any specific adverse changes in the condition of a particular issuer. These factors may have an adverse effect on the market price and a Portfolio's ability to dispose of particular portfolio investments. A less developed secondary market also may make it more difficult for a Portfolio to obtain precise valuations of such securities in its portfolio.

Investments in lower quality securities, whether rated or unrated, will be more dependent on the Investment Adviser's credit analysis than would be the case with investments in higher quality securities.

**PORTFOLIO TURNOVER.** The Investment Adviser will not consider the portfolio turnover rate a limiting factor in making investment decisions for certain Portfolios. A high portfolio turnover rate (100% or more) is likely to involve higher brokerage commissions and other transaction costs, which could reduce a Portfolio's return. It also may result in higher short-term capital gains that are taxable to shareholders. See "Financial Highlights" for the Portfolios' historical portfolio turnover rates.

**REPURCHASE AGREEMENTS.** Repurchase agreements involve the purchase of securities by a Portfolio subject to the seller's agreement to repurchase them at a mutually agreed upon date and price.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may enter into repurchase agreements with financial institutions such as banks and broker-dealers that are deemed to be creditworthy

by the Investment Adviser. Although the securities subject to a repurchase agreement may have maturities exceeding one year, settlement of the agreement will never occur more than one year after a Portfolio acquires the securities.

**SPECIAL RISKS.** In the event of a default, a Portfolio will suffer a loss to the extent that the proceeds from the sale of the underlying securities and other collateral are less than the repurchase price and the Portfolio's costs associated with delay and enforcement of the repurchase agreement. In addition, in the event of bankruptcy, a Portfolio could suffer additional losses if a court determines that the Portfolio's interest in the collateral is unenforceable by the Portfolio.

A Portfolio intends to enter into transactions with counterparties that are creditworthy at the time of the transactions. There is always the risk that the Investment Adviser's analysis of creditworthiness is incorrect or may change due to market conditions. To the extent that a Portfolio focuses its transactions with a limited number of counterparties, it will be more susceptible to the risks associated with one or more counterparties.

With respect to collateral received in repurchase transactions or other investments, a Portfolio may have significant exposure to the financial services and mortgage markets. Such exposure, depending on market conditions, could have a negative impact on the Portfolio, including minimizing the value of any collateral.

**SECURITIES LENDING.** In order to generate additional income, the Portfolios may lend securities to banks, brokers and dealers or other qualified institutions. In exchange, the Portfolios will receive collateral equal to at least 100% of the value of the securities loaned.

**INVESTMENT STRATEGY.** Securities lending may represent no more than one-third of the value of a Portfolio's total assets (including the loan collateral). Any cash collateral received by a Portfolio in connection with these loans may be invested in a variety of short-term investments, either directly or indirectly through money market portfolios. Such instruments are not limited to U.S. government securities and may include short-term obligations of banks and other corporations. Loan collateral (including any investment of the collateral) is not included in the calculation of the percentage limitations described elsewhere in this Prospectus regarding a Portfolio's investments in particular types of securities.

**SPECIAL RISKS.** A principal risk when lending portfolio securities is that the borrower might become insolvent or refuse to honor its obligation to return the securities. In this event, a Portfolio could experience delays in recovering its securities and possibly may incur a capital loss. A Portfolio will be responsible for any loss that might result from its investment of the cash collateral

it receives from a borrower. Additionally, the amount of income to shareholders of a Portfolio that is taxable at the state level may increase as a result of such Portfolio's securities lending activities. Any state tax-exempt interest paid on securities while on loan will not be deemed to have been received by such Portfolio, and the equivalent amount paid by the borrower of the securities to the Portfolio will not be deemed to be dividends exempt from state taxes, but is likely to be deemed taxable income to shareholders.

**STRIPPED SECURITIES.** These securities are issued by the U.S. government (or an agency, instrumentality or a sponsored enterprise), foreign governments, banks and other issuers. They entitle the holder to receive either interest payments or principal payments that have been "stripped" from a debt obligation. These obligations include stripped mortgage-backed securities, which are derivative multi-class mortgage securities.

The Treasury Department has facilitated transfers of ownership of zero coupon securities by accounting separately for the beneficial ownership of particular interest coupon and principal payments on Treasury securities through the Federal Reserve book-entry record-keeping system. The Federal Reserve program as established by the Treasury Department is known as "Separate Trading of Registered Interest and Principal of Securities" or "STRIPS." Under the STRIPS program, a Portfolio will be able to have its beneficial ownership of zero coupon securities recorded directly in the book-entry record-keeping system in lieu of having to hold certificates or other evidences of ownership of the underlying U.S. Treasury securities.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Portfolios may purchase stripped securities, including securities registered in the STRIPS program.

**SPECIAL RISKS.** Stripped securities are very sensitive to changes in interest rates and to the rate of principal prepayments. A rapid or unexpected change in either interest rates or principal prepayments could depress the price of stripped securities held by the Portfolios and adversely affect a Portfolio's total return.

**TEMPORARY INVESTMENTS.** The Portfolios temporarily may hold cash and/or invest in short-term obligations including U.S. government obligations, high quality money market instruments (including commercial paper and obligations of foreign and domestic banks such as certificates of deposit, bank and deposit notes, bankers' acceptances and fixed time deposits), and repurchase agreements with maturities of 13 months or less.

**INVESTMENT STRATEGY.** A Portfolio temporarily may hold cash or invest all or any portion of its assets in short-term obligations pending investment or to meet anticipated

redemption requests. Except for the U.S. Treasury Index Portfolio, a Portfolio also may hold cash or invest in short-term obligations as a temporary measure mainly designed to limit a Portfolio's losses in response to adverse market, economic or other conditions when the Investment Adviser believes that it is in the best interest of the Portfolio to pursue such a defensive strategy. The Investment Adviser may, however, choose not to make such temporary investments even in very volatile or adverse conditions.

**SPECIAL RISKS.** A Portfolio may not achieve its investment objective when it holds cash or invests its assets in short-term obligations or otherwise makes temporary investments. A Portfolio also may miss investment opportunities and have a lower total return during these periods.

**TRACKING RISK.** The U.S. Treasury Index Portfolio seeks to track the performance of its benchmark index.

**INVESTMENT STRATEGY.** Under normal market conditions, the Investment Adviser expects that the quarterly performance of the U.S. Treasury Index Portfolio, before expenses, will track the performance of its benchmark, the Barclays Capital U.S. Treasury Index, within a 0.95 correlation coefficient.

**SPECIAL RISKS.** The U.S. Treasury Index Portfolio is subject to the risk of tracking variance. Tracking variance may result from share purchases and redemptions, transaction costs, expenses and other factors. Tracking variance may prevent the Portfolio from achieving its investment objective.

**UNITED STATES GOVERNMENT OBLIGATIONS.** These instruments include U.S. Treasury obligations, such as bills, notes and bonds, which generally differ only in terms of their interest rates, maturities and time of issuance. They also include obligations issued or guaranteed by the U.S. government or by its agencies, instrumentalities or sponsored enterprises. Securities guaranteed as to principal and interest by the U.S. government or by its agencies, instrumentalities or sponsored enterprises are deemed to include (a) securities for which the payment of principal and interest is backed by an irrevocable letter of credit issued by the U.S. government or by an agency, instrumentality or sponsored enterprise thereof, (b) securities of private issuers guaranteed as to principal and interest by the U.S. government, its agencies and instrumentalities pursuant to the FDIC Debt Guarantee Program, and (c) participations in loans made to foreign governments or their agencies that are so guaranteed.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may invest in a variety of U.S. Treasury obligations and, with the exception of the U.S. Treasury Index Portfolio, also may invest in obligations issued or guaranteed by the U.S. government or by its agencies, instrumentalities or sponsored enterprises.

**SPECIAL RISKS.** Not all U.S. government obligations carry the same credit support. Although many U.S. government securities purchased by the Portfolios, such as those issued by the Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal Home Loan Banks may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the U.S. Treasury and, therefore, are not backed by the full faith and credit of the United States. Some, such as those of the Government National Mortgage Association ("Ginnie Mae"), are supported by the full faith and credit of the U.S. Treasury. Other obligations, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury; and others are supported by the discretionary authority of the U.S. government to purchase the agency's obligations. Still others are supported only by the credit of the instrumentality or sponsored enterprise. The maximum potential liability of the issuers of some U.S. government securities held by a Portfolio may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future. No assurance can be given that the U.S. government would provide financial support to its agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. In addition, the secondary market for certain participations in loans made to foreign governments or their agencies may be limited.

An agency of the U.S. government has placed Fannie Mae and Freddie Mac into conservatorship, a statutory process with the objective of returning the entities to normal business operations. It is unclear what effect this conservatorship will have on the securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, these securities are subject to more credit risk than U.S. government securities that are supported by the full faith and credit of the United States (e.g., U.S. Treasury bonds).

To the extent a Portfolio invests in debt instruments or securities of non-U.S. government entities that are backed by the full faith and credit of the United States, pursuant to the FDIC Debt Guarantee Program or other similar programs, there is a possibility that the guarantee provided under the Debt Guarantee Program or other similar programs may be discontinued or modified at a later date.

**ZERO COUPON, PAY-IN-KIND AND CAPITAL APPRECIATION BONDS.** These are securities issued at a discount from their face value because interest payments typically are postponed until maturity. Interest payments on pay-in-kind securities are payable by the delivery of additional securities. The amount of the discount rate varies depending on factors such as the time

remaining until maturity, prevailing interest rates, a security's liquidity and the issuer's credit quality. These securities also may take the form of debt securities that have been stripped of their interest payments.

**INVESTMENT STRATEGY.** Each Portfolio may invest in zero coupon, pay-in-kind and capital appreciation bonds to the extent consistent with its investment objective and strategies.

**SPECIAL RISKS.** The market prices of zero coupon, pay-in-kind and capital appreciation bonds generally are more volatile than the market prices of interest-bearing securities and are likely to respond to a greater degree to changes in interest rates than interest-bearing securities having similar maturities and credit quality. A Portfolio's investments in zero coupon, pay-in-kind and capital appreciation bonds may require the Portfolio to sell some of its Portfolio securities to generate sufficient cash to satisfy certain income distribution requirements.

#### ADDITIONAL DESCRIPTION OF SECURITIES AND COMMON INVESTMENT TECHNIQUES

This section explores various other investment securities and techniques that the Investment Adviser may use.

**BORROWINGS AND REVERSE REPURCHASE AGREEMENTS.** The Portfolios may borrow money and enter into reverse repurchase agreements. Reverse repurchase agreements involve the sale of securities held by a Portfolio subject to the Portfolio's agreement to repurchase them at a mutually agreed upon date and price (including interest).

**INVESTMENT STRATEGY.** Each Portfolio may borrow and enter into reverse repurchase agreements in amounts not exceeding one-fourth of the value of its total assets (including the amount borrowed). The Portfolios may enter into reverse repurchase agreements when the investment management team expects that the interest income to be earned from the investment of the transaction proceeds will be greater than the related interest expense.

**SPECIAL RISKS.** Borrowings and reverse repurchase agreements involve leveraging. If the securities held by the Portfolios decline in value while these transactions are outstanding, the NAV of the Portfolios' outstanding shares will decline in value by proportionately more than the decline in value of the securities. In addition, reverse repurchase agreements involve the risks that (a) the interest income earned by a Portfolio (from the investment of the proceeds) will be less than the interest expense of the transaction; (b) the market value of the securities sold by a Portfolio will decline below the price the Portfolio is obligated to pay to repurchase the securities; and (c) the securities may not be returned to the Portfolio.

**DERIVATIVES.** The Portfolios may purchase certain "derivative" instruments for hedging or speculative purposes. A derivative is a financial instrument whose value is derived from, or based upon, the performance of underlying assets, interest or currency exchange rates, or other indices and may be leveraged. Derivatives include futures contracts, options, interest rate and currency swaps, forward currency contracts and structured securities (including collateralized mortgage obligations ("CMOs") and other types of asset-backed securities, "stripped" securities and various floating rate instruments, including leveraged "inverse floaters").

**INVESTMENT STRATEGY.** Under normal market conditions, a Portfolio may to a moderate extent invest in derivative securities including structured securities, options, futures, swaps and interest rate caps and floors if the potential risks and rewards are consistent with the Portfolio's objective, strategies and overall risk profile. In unusual circumstances, including times of increased market volatility, a Portfolio may make more significant investments in derivatives. The Portfolios may use derivatives for hedging purposes to offset a potential loss in one position by establishing an interest in an opposite position. The Portfolios also may use derivatives for speculative purposes to invest for potential income or capital gain. Each Portfolio may invest more than 5% of its assets in derivative instruments for non-hedging purposes (i.e. for potential income or gain).

**SPECIAL RISKS.** An investment in derivatives can be more sensitive to changes in interest rates and sudden fluctuations in market prices than conventional securities. Investments in derivative instruments, which may be leveraged, may result in losses exceeding the amounts invested. A Portfolio's losses may be greater if it invests in derivatives than if it invests only in conventional securities. Engaging in derivative transactions involves special risks, including (a) market risk that the Portfolio's derivatives position will lose value; (b) credit risk that the counterparty to the transaction will default; (c) leveraging risk that the value of the derivative instrument will decline more than the value of the assets on which it is based; (d) illiquidity risk that a Portfolio will be unable to sell its position because of lack of market depth or disruption; (e) pricing risk that the value of a derivative instrument will be difficult to determine; and (f) operations risk that loss will occur as a result of inadequate systems or human error. Many types of derivatives have been developed recently and have not been tested over complete market cycles. For these reasons, a Portfolio may suffer a loss whether or not the analysis of the Investment Adviser is accurate.

In order to secure its obligations in connection with derivative contracts or special transactions, a Portfolio will either own the underlying assets, enter into offsetting transactions or set aside cash or readily marketable securities. This requirement may

cause the Portfolio to miss favorable trading opportunities, due to a lack of sufficient cash or readily marketable securities. This requirement also may cause the Portfolio to realize losses on offsetting or terminated derivative contracts or special transactions.

**EXCHANGE RATE-RELATED SECURITIES.** Exchange rate-related securities represent certain foreign debt obligations whose principal values are linked to a foreign currency but which are repaid in U.S. dollars.

**INVESTMENT STRATEGY.** The Bond, Intermediate Bond and Short Bond Portfolios may invest in exchange rate-related securities.

**SPECIAL RISKS.** The principal payable on an exchange rate-related security is subject to currency risk. In addition, the potential illiquidity and high volatility of the foreign exchange market may make exchange rate-related securities difficult to sell prior to maturity at an appropriate price.

**FORWARD CURRENCY EXCHANGE CONTRACTS.** A forward currency exchange contract is an obligation to exchange one currency for another on a future date at a specified exchange rate.

**INVESTMENT STRATEGY.** The Bond, Intermediate Bond and Short Bond Portfolios may enter into forward currency exchange contracts for hedging purposes and to help reduce the risks and volatility caused by changes in foreign currency exchange rates. Foreign currency exchange contracts will be used at the discretion of the investment management team, and no Portfolio is required to hedge its foreign currency positions.

**SPECIAL RISKS.** Forward foreign currency contracts are privately negotiated transactions, and can have substantial price volatility. As a result, they offer less protection against default by the other party than is available for instruments traded on an exchange. When used for hedging purposes, they tend to limit any potential gain that may be realized if the value of a Portfolio's foreign holdings increases because of currency fluctuations. When used for speculative purposes, forward currency exchange contracts may result in additional losses that are not otherwise related to changes in the value of the securities held by a Portfolio. The institutions that deal in forward currency contracts are not required to continue to make markets in the currencies they trade and these markets can experience periods of illiquidity.

**FUTURES CONTRACTS AND RELATED OPTIONS.** A futures contract is a type of derivative instrument that obligates the holder to buy or sell a specified financial instrument or currency in the future at an agreed upon price. For example, a futures contract may obligate a Portfolio, at maturity, to take or make delivery of certain domestic or foreign securities, the cash

value of a securities index or a stated quantity of a foreign currency. When a Portfolio purchases an option on a futures contract, it has the right to assume a position as a purchaser or seller of a futures contract at a specified exercise price during the option period. When a Portfolio sells an option on a futures contract, it becomes obligated to purchase or sell a futures contract if the option is exercised.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may invest in futures contracts and options on futures contracts on domestic or foreign exchanges or boards of trade. These investments may be used for hedging purposes, to seek to increase total return or to maintain liquidity to meet potential shareholder redemptions, to invest cash balances or dividends or to minimize trading costs.

**SPECIAL RISKS.** Futures contracts and options present the following risks: imperfect correlation between the change in market value of a Portfolio's securities and the price of futures contracts and options; the possible inability to close a futures contract when desired; losses due to unanticipated market movements which potentially are unlimited; and the possible inability of the investment management team to correctly predict the direction of securities prices, interest rates, currency exchange rates and other economic factors. Futures markets are highly volatile and the use of futures may increase the volatility of a Portfolio's NAV. As a result of the low margin deposits normally required in futures trading, a relatively small price movement in a futures contract may result in substantial losses to a Portfolio. Futures contracts and options on futures may be illiquid, and exchanges may limit fluctuations in futures contract prices during a single day. Foreign exchanges or boards of trade generally do not offer the same protections as U.S. exchanges.

**ILLIQUID OR RESTRICTED SECURITIES.** Illiquid securities include repurchase agreements and time deposits with notice/termination dates of more than seven days, certain variable amount master demand notes that cannot be called within seven days, certain insurance funding agreements (see "Insurance Funding Agreements" below), certain unlisted over-the-counter options and other securities that are traded in the U.S. but are subject to trading restrictions because they are not registered under the Securities Act of 1933, as amended (the "1933 Act"), and both foreign and domestic securities that are not readily marketable.

**INVESTMENT STRATEGY.** Each Portfolio may invest up to 15% of its net assets in securities that are illiquid. If otherwise consistent with their investment objectives and strategies, the Portfolios may purchase commercial paper issued pursuant to Section 4(2) of the 1933 Act and securities that are not registered under the 1933 Act but can be sold to "qualified

institutional buyers” in accordance with Rule 144A under the 1933 Act (“Rule 144A Securities”). These securities will not be considered illiquid so long as the Investment Adviser determines, under guidelines approved by the Trust’s Board of Trustees, that an adequate trading market exists.

**SPECIAL RISKS.** Because illiquid and restricted securities may be difficult to sell at an acceptable price, they may be subject to greater volatility and may result in a loss to a Portfolio. The practice of investing in Rule 144A Securities could increase the level of a Portfolio’s illiquidity during any period that qualified institutional buyers become uninterested in purchasing these securities. Securities purchased by a Portfolio that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions and/or investor perception.

**INSURANCE FUNDING AGREEMENTS.** An insurance funding agreement (“IFA”) is an agreement that requires a Portfolio to make cash contributions to a deposit fund of an insurance company’s general account. The insurance company then credits interest to the Portfolio for a set time period.

**INVESTMENT STRATEGY.** The Bond, Core Bond, Intermediate Bond and Short Bond Portfolios may invest in IFAs issued by insurance companies that meet quality and credit standards established by the Investment Adviser.

**SPECIAL RISKS.** IFAs are not insured by a government agency – they are backed only by the insurance company that issues them. As a result, they are subject to default risk of the non-governmental issuer. In addition, the transfer of IFAs may be restricted and an active secondary market in IFAs currently does not exist. This means that it may be difficult or impossible to sell an IFA at an appropriate price.

**INTEREST RATE SWAPS, CURRENCY SWAPS, TOTAL RATE OF RETURN SWAPS, CREDIT SWAPS, AND INTEREST RATE FLOORS, CAPS AND COLLARS.** Interest rate and currency swaps are contracts that obligate a Portfolio and another party to exchange their rights to pay or receive interest or specified amounts of currency, respectively. Interest rate floors entitle the purchasers to receive interest payments if a specified index falls below a predetermined interest rate. Interest rate caps entitle the purchasers to receive interest payments if a specified index exceeds a predetermined interest rate. An interest rate collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates. Total rate of return swaps are contracts that obligate a party to pay or receive interest in exchange for the payment by the other party of the total return generated by a security, a basket of securities, an index or an index component. Credit swaps are contracts involving the receipt of floating or fixed rate payments in exchange for assuming potential credit losses of an underlying

security. Credit swaps give one party to a transaction the right to dispose of or acquire an asset (or group of assets) or, in the case of credit default swaps, the right to receive or make a payment from the other party, upon the occurrence of specific credit events.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Portfolios may enter into swap transactions and transactions involving interest rate floors, caps and collars for hedging purposes or to seek to increase total return.

**SPECIAL RISKS.** The use of swaps and interest rate floors, caps and collars is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. Like other derivative securities, these instruments can be highly volatile. If an Investment Adviser is incorrect in its forecasts of market values, interest rates and currency exchange rates, the investment performance of a Portfolio would be less favorable than it would have been if these instruments were not used. Because these instruments normally are illiquid, a Portfolio may not be able to terminate its obligations when desired. In addition, if a Portfolio is obligated to pay the return under the terms of a total rate of return swap, Portfolio losses due to unanticipated market movements potentially are unlimited. A Portfolio also may suffer a loss if the other party to a transaction defaults. Credit default swaps involve special risks in addition to those mentioned above because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty).

**INVESTMENT COMPANIES.** Affiliated and unaffiliated investment companies include, but are not limited to, money market funds, index funds, “country funds” (i.e., funds that invest primarily in issuers located in a specific foreign country or region), iShares®, S&P’s Depositary Receipts® (“SPDRs”) and other exchange-traded funds (“ETFs”). Other investment companies in which the Portfolios may invest include other funds for which the Investment Adviser or any of its affiliates serve as investment advisers.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Portfolios may invest in securities issued by other affiliated and unaffiliated investment companies. Investments by a Portfolio in other investment companies, including ETFs, will be subject to the limitations of the 1940 Act except as permitted by SEC orders. The Portfolios may rely on SEC orders that permit them to invest in certain ETFs beyond the limits contained in the 1940 Act, subject to certain terms and conditions. Although the

Portfolios do not expect to do so in the foreseeable future, each Portfolio is authorized to invest substantially all of its assets in a single open-end investment company or series thereof that has substantially the same investment objective, strategies and fundamental restrictions as the Portfolio.

**SPECIAL RISKS.** As a shareholder of another investment company, a Portfolio would be subject to the same risks as any other investor in that company. It also would bear a proportionate share of any fees and expenses paid by that company. These expenses would be in addition to the advisory and other fees paid directly by the Portfolio. A Portfolio's investment in an ETF involves other considerations. In particular, shares of ETFs are listed and traded on securities exchanges and in over-the-counter markets, and the purchase and sale of these shares involve transaction fees and commissions. In addition, shares of an ETF are issued in "creation units" and are not redeemable individually except upon termination of the ETF. To redeem, a Portfolio must accumulate enough shares of an ETF to reconstitute a creation unit. The liquidity of a small holding of an ETF, therefore, will depend upon the existence of a secondary market. Also, even though the market price of an ETF is derived from the securities it owns, such price at any given time may be at, below or above the ETF's NAV.

**MORTGAGE DOLLAR ROLLS.** A mortgage dollar roll involves the sale by a Portfolio of securities for delivery in the future (generally within 30 days). The Portfolio simultaneously contracts with the same counterparty to repurchase substantially similar (same type, coupon and maturity) but not identical securities on a specified future date. During the roll period, the Portfolio loses the right to receive principal and interest paid on the securities sold. However, the Portfolio benefits to the extent of any difference between (a) the price received for the securities sold and (b) the lower forward price for the future purchase and/or fee income plus the interest earned on the cash proceeds of the securities sold.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may enter into mortgage dollar rolls in an effort to enhance investment performance. For financial reporting and tax purposes, the Portfolios treat mortgage dollar rolls as two separate transactions: one involving the purchase of a security and a separate transaction involving a sale. The Portfolios currently do not intend to enter into mortgage dollar rolls that are accounted for as financing and do not treat them as borrowings.

**SPECIAL RISKS.** Successful use of mortgage dollar rolls depends upon the Investment Adviser's ability to predict correctly interest rates and mortgage prepayments. If the Investment Adviser is incorrect in its prediction, a Portfolio may experience

a loss. Unless the benefits of a mortgage dollar roll exceed the income, capital appreciation and gain or loss due to mortgage prepayments that would have been realized on the securities sold as part of the roll, the use of this technique will diminish the Portfolio's performance.

**OPTIONS.** An option is a type of derivative instrument that gives the holder the right (but not the obligation) to buy (a "call") or sell (a "put") an asset in the future at an agreed upon price prior to the expiration date of the option.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may write (sell) covered call options, buy put options, buy call options and write secured put options for hedging (or cross-hedging) purposes or to earn additional income. Options may relate to particular securities, foreign or domestic securities indices, financial instruments or foreign currencies. A Portfolio will not purchase put and call options in an amount that exceeds 5% of its net assets at the time of purchase. The total value of a Portfolio's assets subject to options written by the Portfolio will not be greater than 25% of its net assets at the time the option is written. A Portfolio may "cover" a call option by owning the security underlying the option or through other means. Put options written by a Portfolio are "secured" if the Portfolio maintains liquid assets in a segregated account in an amount at least equal to the exercise price of the option up until the expiration date.

**SPECIAL RISKS.** Options trading is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary Portfolio securities transactions. The value of options can be highly volatile, and their use can result in loss if the investment management team is incorrect in its expectation of price fluctuations. The successful use of options for hedging purposes also depends in part on the ability of the investment management team to predict future price fluctuations and the degree of correlation between the options and securities markets.

Each Portfolio will invest and trade in unlisted over-the-counter options only with firms deemed creditworthy by the Investment Adviser. However, unlisted options are not subject to the protections afforded purchasers of listed options by the Options Clearing Corporation, which performs the obligations of its members which fail to perform them in connection with the purchase or sale of options.

**PREFERRED STOCK.** Preferred stocks are securities that represent an ownership interest providing the holder with claims on the issuer's earnings and assets before common stock owners but after bond owners.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Bond, Core Bond, Intermediate Bond and Short Bond Portfolio, may invest in preferred stocks.

**SPECIAL RISKS.** Unlike most debt securities, the obligations of an issuer of preferred stock, including dividend and other payment obligations, typically may not be accelerated by the holders of such preferred stock on the occurrence of an event of default or other non-compliance by the issuer of the preferred stock.

**REAL ESTATE INVESTMENT TRUSTS ("REITS").** REITs are pooled investment vehicles that invest primarily in either real estate or real estate related loans.

**INVESTMENT STRATEGY.** To the extent consistent with their respective investment objectives and strategies, the Portfolios may invest in REITs.

**SPECIAL RISKS.** The value of a REIT is affected by changes in the value of the properties owned by the REIT or securing mortgage loans held by the REIT. REITs are dependent upon cash flow from their investments to repay financing costs and the ability of a REIT's manager. REITs also are subject to risks generally associated with investments in real estate. These risks include: changes in the value of real estate properties and difficulties in valuing and trading real estate; risks related to general and local economic conditions; overbuilding and increased competition; increases in property taxes and operating expenses; changes in zoning laws; casualty and condemnation losses; variations in rental income; changes in the appeal of property to tenants; tenant bankruptcies and other credit problems; and changes in interest rates. A Portfolio will indirectly bear its proportionate share of any expenses, including management fees, paid by a REIT in which it invests.

**STRUCTURED SECURITIES.** Structured securities present additional risk that the interest paid to a Portfolio on a structured security will be less than expected. The value of such securities is determined by reference to changes in the value of specific currencies, interest rates, commodities, securities, indices or other financial indicators (the "Reference") or the relative change in two or more References. The interest rate or the principal amount payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. Examples of structured securities include, but are not limited to, debt obligations, where the principal repayment at maturity is determined by the value of a specified security or securities index.

**INVESTMENT STRATEGY.** Each Portfolio may invest in structured securities to the extent consistent with its investment objective and strategies.

**SPECIAL RISKS.** The terms of some structured securities may provide that in certain circumstances no principal is due at maturity and, therefore, a Portfolio could suffer a total loss of its investment. Structured securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, changes in the interest rates or the value of the security at maturity may be a multiple of changes in the value of the Reference. Consequently, structured securities may entail a greater degree of market risk than other types of securities. Structured securities also may be more volatile, less liquid and more difficult to accurately price than less complex securities due to their derivative nature. As a result, investments in structured securities may adversely affect a Portfolio's NAV. In some cases it is possible that a Portfolio may suffer a total loss on its investment in a structured security.

**VARIABLE AND FLOATING RATE INSTRUMENTS.** Variable and floating rate instruments have interest rates that periodically are adjusted either at set intervals or that float at a margin tied to a specified index rate. These instruments include variable amount master demand notes, long-term variable and floating rate bonds (sometimes referred to as "Put Bonds") where the Portfolio obtains at the time of purchase the right to put the bond back to the issuer or a third party at par at a specified date and leveraged inverse floating rate instruments ("inverse floaters"). An inverse floater is leveraged to the extent that its interest rate varies by an amount that exceeds the amount of the variation in the index rate of interest. Some variable and floating rate instruments have interest rates that periodically are adjusted as a result of changes in inflation rates.

**INVESTMENT STRATEGY.** Each Portfolio may invest in variable and floating rate instruments to the extent consistent with its investment objective and strategies.

**SPECIAL RISKS.** The market values of inverse floaters are subject to greater volatility than other variable and floating rate instruments due to their higher degree of leverage. Because there is no active secondary market for certain variable and floating rate instruments, they may be more difficult to sell if the issuer defaults on its payment obligations or during periods when the Portfolios are not entitled to exercise their demand rights. As a result, the Portfolios could suffer a loss with respect to these instruments. In addition, variable and floating rate instruments are subject to changes in value based on changes in market interest rates or changes in the issuer's or guarantor's creditworthiness.

**WHEN-ISSUED SECURITIES, DELAYED DELIVERY TRANSACTIONS AND FORWARD COMMITMENTS.** A purchase of "when-issued" securities refers to a transaction made conditionally because the securities, although authorized, have not yet been issued. A delayed delivery or forward commitment transaction involves a

contract to purchase or sell securities for a fixed price at a future date beyond the customary settlement period.

**INVESTMENT STRATEGY.** To the extent consistent with its investment objective and strategies, each Portfolio may purchase or sell securities on a when-issued, delayed-delivery or forward commitment basis. Although the Portfolios generally would purchase securities in these transactions with the intention of acquiring the securities, the Portfolios may dispose of such securities prior to settlement if the investment management team deems it appropriate to do so.

**SPECIAL RISKS.** Purchasing securities on a when-issued, delayed delivery or forward commitment basis involves the risk that the value of the securities may decrease by the time they actually are issued or delivered. Conversely, selling securities in these transactions involves the risk that the value of the securities may increase by the time they actually are issued or delivered. These transactions also involve the risk that the counterparty may fail to deliver the security or cash on the settlement date.

Additionally, the Portfolios may purchase other types of securities or instruments similar to those described in these sections if otherwise consistent with the Portfolios' investment objectives and strategies. You should carefully consider the risks discussed in these sections before investing in a Portfolio.

The Portfolios may invest in other securities and are subject to further restrictions and risks that are described in the SAI. Additional information about the Portfolios, their investments and related risks can also be found in "Investment Objectives and Strategies" in the SAI.

## DISCLAIMERS

The U.S. Treasury Index Portfolio is not sponsored, endorsed, sold or promoted by Barclays Capital, nor does Barclays Capital guarantee the accuracy and/or completeness of the Barclays Capital U.S. Treasury Index or any data included therein. Barclays Capital makes no warranty, express or implied, as to the results to be obtained by the Portfolio, owners of the Portfolio, any person or by any entity from the use of the Barclays Capital U.S. Treasury Index or any data included therein. Barclays Capital makes no express or implied warranties and expressly disclaims all such warranties of merchantability or fitness for a particular purpose or use with respect to the Barclays Capital U.S. Treasury Index or any data included therein.

THIS PAGE INTENTIONALLY LEFT BLANK

**FINANCIAL HIGHLIGHTS**

**THE FINANCIAL HIGHLIGHTS TABLES ARE INTENDED TO HELP YOU UNDERSTAND A PORTFOLIO'S FINANCIAL PERFORMANCE FOR THE PAST FIVE YEARS.**

Certain information reflects the financial results for a single Portfolio share. The total returns in the tables represent the rate that an investor would have earned or lost on an investment in a Portfolio for a share held for the entire period (assuming reinvestment of all dividends and distributions). This information has been derived from financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm, whose report, along with the Portfolios' financial statements, is included in the Portfolios' annual report, which is available upon request and without charge. As of November 30, 2010, no Class C Shares of the Intermediate Bond, Short Bond and U.S. Government Securities Portfolios were outstanding.

## FINANCIAL HIGHLIGHTS

BOND PORTFOLIO		CLASS A				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.68</b>	<b>\$19.14</b>	<b>\$19.66</b>	<b>\$19.82</b>	<b>\$19.57</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.76	0.81	0.81	1.02	0.97	
Net realized and unrealized gains (losses)	0.54	1.58	(0.51)	(0.15)	0.28	
Total from Investment Operations	1.30	2.39	0.30	0.87	1.25	
LESS DISTRIBUTIONS PAID:						
From net investment income <sup>(2)</sup>	(0.79)	(0.85)	(0.82)	(1.03)	(1.00)	
Total Distributions Paid	(0.79)	(0.85)	(0.82)	(1.03)	(1.00)	
Net Asset Value, End of Year	\$21.19	\$20.68	\$19.14	\$19.66	\$19.82	
<b>Total Return<sup>(3)</sup></b>	<b>6.40%</b>	<b>12.79%</b>	<b>1.77%</b>	<b>4.47%</b>	<b>6.61%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$224,006	\$284,682	\$269,001	\$280,428	\$255,271	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.36%	0.36%	0.36%	0.36%	0.36%	
Expenses, before waivers, reimbursements and credits	0.57%	0.56%	0.55%	0.55%	0.55%	
Net investment income, net of waivers, reimbursements and credits	3.66%	4.06%	4.15%	5.22%	4.99%	
Net investment income, before waivers, reimbursements and credits	3.45%	3.86%	3.96%	5.03%	4.80%	
Portfolio Turnover Rate	709.09%	630.26%	570.64%	604.49%	680.00%	

		CLASS C				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.68</b>	<b>\$19.13</b>	<b>\$19.65</b>	<b>\$19.81</b>	<b>\$19.56</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.72	0.76	0.77	0.98	0.91	
Net realized and unrealized gains (losses)	0.53	1.60	(0.52)	(0.17)	0.30	
Total from Investment Operations	1.25	2.36	0.25	0.81	1.21	
LESS DISTRIBUTIONS PAID:						
From net investment income <sup>(2)</sup>	(0.74)	(0.81)	(0.77)	(0.97)	(0.96)	
Total Distributions Paid	(0.74)	(0.81)	(0.77)	(0.97)	(0.96)	
Net Asset Value, End of Year	\$21.19	\$20.68	\$19.13	\$19.65	\$19.81	
<b>Total Return<sup>(3)</sup></b>	<b>6.14%</b>	<b>12.57%</b>	<b>1.58%</b>	<b>4.22%</b>	<b>6.37%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$146	\$184	\$208	\$338	\$201	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.60%	0.60%	0.60%	0.60%	0.60%	
Expenses, before waivers, reimbursements and credits	0.81%	0.80%	0.79%	0.79%	0.79%	
Net investment income, net of waivers, reimbursements and credits	3.42%	3.82%	3.91%	4.98%	4.75%	
Net investment income, before waivers, reimbursements and credits	3.21%	3.62%	3.72%	4.79%	4.56%	
Portfolio Turnover Rate	709.09%	630.26%	570.64%	604.49%	680.00%	

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Distributions to shareholders from net investment income include amounts relating to foreign currency transactions which are treated as ordinary income for federal income tax purposes.

(3) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

BOND PORTFOLIO	CLASS D				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.69</b>	<b>\$19.14</b>	<b>\$19.64</b>	<b>\$19.79</b>	<b>\$19.53</b>
INCOME (LOSS) FROM INVESTMENT OPERATIONS:					
Net investment income	0.68	0.73	0.73	0.95	0.90
Net realized and unrealized gains (losses)	0.53	1.60	(0.49)	(0.17)	0.28
Total from Investment Operations	1.21	2.33	0.24	0.78	1.18
LESS DISTRIBUTIONS PAID:					
From net investment income <sup>(2)</sup>	(0.70)	(0.78)	(0.74)	(0.93)	(0.92)
Total Distributions Paid	(0.70)	(0.78)	(0.74)	(0.93)	(0.92)
Net Asset Value, End of Year	\$21.20	\$20.69	\$19.14	\$19.64	\$19.79
<b>Total Return<sup>(3)</sup></b>	<b>5.99%</b>	<b>12.41%</b>	<b>1.48%</b>	<b>4.07%</b>	<b>6.24%</b>
SUPPLEMENTAL DATA AND RATIOS:					
Net assets, in thousands, end of year	\$123	\$100	\$87	\$106	\$136
Ratio to average net assets of:					
Expenses, net of waivers, reimbursements and credits	0.75%	0.75%	0.75%	0.75%	0.75%
Expenses, before waivers, reimbursements and credits	0.96%	0.95%	0.94%	0.94%	0.94%
Net investment income, net of waivers, reimbursements and credits	3.27%	3.67%	3.76%	4.83%	4.60%
Net investment income, before waivers, reimbursements and credits	3.06%	3.47%	3.57%	4.64%	4.41%
Portfolio Turnover Rate	709.09%	630.26%	570.64%	604.49%	680.00%

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Distributions to shareholders from net investment income include amounts relating to foreign currency transactions which are treated as ordinary income for federal income tax purposes.

(3) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

## FINANCIAL HIGHLIGHTS

CORE BOND PORTFOLIO		CLASS A				
Selected per share data	2010	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$10.36</b>	<b>\$9.48</b>	<b>\$9.79</b>	<b>\$9.93</b>	<b>\$9.83</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.37	0.46	0.41	0.49	0.47	
Net realized and unrealized gains (losses)	0.28	0.88	(0.31)	(0.13)	0.10	
Total from Investment Operations	0.65	1.34	0.10	0.36	0.57	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.37)	(0.46)	(0.41)	(0.50)	(0.47)	
Total Distributions Paid	(0.37)	(0.46)	(0.41)	(0.50)	(0.47)	
Net Asset Value, End of Year	\$10.64	\$10.36	\$9.48	\$9.79	\$9.93	
<b>Total Return<sup>(1)</sup></b>	<b>6.46%</b>	<b>14.47%</b>	<b>1.02%</b>	<b>3.76%</b>	<b>6.02%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$100,451	\$95,028	\$174,556	\$207,592	\$196,669	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.36%	0.36%	0.36%	0.36% <sup>(2)</sup>	0.36%	
Expenses, before waivers, reimbursements and credits	0.64%	0.61%	0.57%	0.57%	0.57%	
Net investment income, net of waivers, reimbursements and credits	3.43%	4.47%	4.19%	5.07%	4.81%	
Net investment income, before waivers, reimbursements and credits	3.15%	4.22%	3.98%	4.86%	4.60%	
Portfolio Turnover Rate	765.28%	575.14%	681.34%	716.62%	817.80%	

		CLASS C				
Selected per share data	2010	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$10.38</b>	<b>\$9.48</b>	<b>\$9.76</b>	<b>\$9.87</b>	<b>\$9.78</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.33	0.43	0.39	0.47	0.45	
Net realized and unrealized gains (losses)	0.29	0.89	(0.30)	(0.14)	0.09	
Total from Investment Operations	0.62	1.32	0.09	0.33	0.54	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.35)	(0.42)	(0.37)	(0.44)	(0.45)	
Total Distributions Paid	(0.35)	(0.42)	(0.37)	(0.44)	(0.45)	
Net Asset Value, End of Year	\$10.65	\$10.38	\$9.48	\$9.76	\$9.87	
<b>Total Return<sup>(1)</sup></b>	<b>6.10%</b>	<b>14.24%</b>	<b>0.90%</b>	<b>3.48%</b>	<b>5.75%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$2	\$2	\$1	\$1	\$1	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.60%	0.60%	0.60%	0.60% <sup>(2)</sup>	0.60%	
Expenses, before waivers, reimbursements and credits	0.88%	0.85%	0.81%	0.81%	0.81%	
Net investment income, net of waivers, reimbursements and credits	3.19%	4.23%	3.95%	4.83%	4.57%	
Net investment income, before waivers, reimbursements and credits	2.91%	3.98%	3.74%	4.62%	4.36%	
Portfolio Turnover Rate	765.28%	575.14%	681.34%	716.62%	817.80%	

(1) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

(2) The net expense ratio includes custodian credits of approximately \$15,000 or 0.01% of average net assets for the fiscal year ended November 30, 2007. Absent the custodian credit arrangement, expense reimbursement would have been increased by a corresponding amount.

CORE BOND PORTFOLIO	CLASS D				
Selected per share data	2010	2009	2008	2007	2006
<b>Net Asset Value, Beginning of Year</b>	<b>\$10.43</b>	<b>\$9.54</b>	<b>\$9.84</b>	<b>\$9.95</b>	<b>\$9.85</b>
INCOME (LOSS) FROM INVESTMENT OPERATIONS:					
Net investment income	0.31	0.41	0.36	0.45	0.45
Net realized and unrealized gains (losses)	0.29	0.88	(0.30)	(0.13)	0.09
Total from Investment Operations	0.60	1.29	0.06	0.32	0.54
LESS DISTRIBUTIONS PAID:					
From net investment income	(0.32)	(0.40)	(0.36)	(0.43)	(0.44)
Total Distributions Paid	(0.32)	(0.40)	(0.36)	(0.43)	(0.44)
Net Asset Value, End of Year	\$10.71	\$10.43	\$9.54	\$9.84	\$9.95
<b>Total Return<sup>(1)</sup></b>	<b>5.90%</b>	<b>13.88%</b>	<b>0.57%</b>	<b>3.35%</b>	<b>5.70%</b>
SUPPLEMENTAL DATA AND RATIOS:					
Net assets, in thousands, end of year	\$1	\$1	\$1	\$1	\$1
Ratio to average net assets of:					
Expenses, net of waivers, reimbursements and credits	0.75%	0.75%	0.75%	0.75% <sup>(2)</sup>	0.75%
Expenses, before waivers, reimbursements and credits	1.03%	1.00%	0.96%	0.96%	0.96%
Net investment income, net of waivers, reimbursements and credits	3.04%	4.08%	3.80%	4.68%	4.42%
Net investment income, before waivers, reimbursements and credits	2.76%	3.83%	3.59%	4.47%	4.21%
Portfolio Turnover Rate	765.28%	575.14%	681.34%	716.62%	817.80%

- (1) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.
- (2) The net expense ratio includes custodian credits of approximately \$15,000 or 0.01% of average net assets for the fiscal year ended November 30, 2007. Absent the custodian credit arrangement, expense reimbursement would have been increased by a corresponding amount.

## FINANCIAL HIGHLIGHTS

U.S. TREASURY INDEX PORTFOLIO		CLASS A				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007	2006 <sup>(1)</sup>	
<b>Net Asset Value, Beginning of Year</b>	<b>\$22.92</b>	<b>\$23.15</b>	<b>\$21.79</b>	<b>\$21.07</b>	<b>\$20.99</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.59	0.72	0.79	0.88	0.89	
Net realized and unrealized gains (losses)	0.44	(0.18)	1.35	0.72	0.08	
Total from Investment Operations	1.03	0.54	2.14	1.60	0.97	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.59)	(0.76)	(0.78)	(0.88)	(0.89)	
From net realized gains	(0.52)	(0.01)	—	—	—	
Total Distributions Paid	(1.11)	(0.77)	(0.78)	(0.88)	(0.89)	
Net Asset Value, End of Year	\$22.84	\$22.92	\$23.15	\$21.79	\$21.07	
<b>Total Return<sup>(2)</sup></b>	<b>4.74%</b>	<b>2.39%</b>	<b>10.10%</b>	<b>7.83%</b>	<b>4.78%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$141,733	\$135,324	\$216,204	\$129,448	\$47,481	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.26%	0.26%	0.26%	0.26%	0.26%	
Expenses, before waivers, reimbursements and credits	0.48%	0.47%	0.47%	0.55%	0.57%	
Net investment income, net of waivers, reimbursements and credits	2.60%	3.13%	3.57%	4.37%	4.27%	
Net investment income, before waivers, reimbursements and credits	2.38%	2.92%	3.36%	4.08%	3.96%	
Portfolio Turnover Rate	47.05%	44.72%	33.07%	36.29%	39.97%	

		CLASS C				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007	2006 <sup>(1)</sup>	
<b>Net Asset Value, Beginning of Year</b>	<b>\$22.98</b>	<b>\$23.17</b>	<b>\$21.80</b>	<b>\$21.07</b>	<b>\$20.98</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.53	0.69	0.74	0.87	0.84	
Net realized and unrealized gains (losses)	0.41	(0.18)	1.36	0.68	0.09	
Total from Investment Operations	0.94	0.51	2.10	1.55	0.93	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.54)	(0.69)	(0.73)	(0.82)	(0.84)	
From net realized gains	(0.52)	(0.01)	—	—	—	
Total Distributions Paid	(1.06)	(0.70)	(0.73)	(0.82)	(0.84)	
Net Asset Value, End of Year	\$22.86	\$22.98	\$23.17	\$21.80	\$21.07	
<b>Total Return<sup>(2)</sup></b>	<b>4.29%</b>	<b>2.26%</b>	<b>9.85%</b>	<b>7.61%</b>	<b>4.58%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$1	\$2	\$3,318	\$1,679	\$1,191	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.50%	0.50%	0.50%	0.50%	0.50%	
Expenses, before waivers, reimbursements and credits	0.72%	0.71%	0.71%	0.79%	0.81%	
Net investment income, net of waivers, reimbursements and credits	2.36%	2.89%	3.33%	4.13%	4.03%	
Net investment income, before waivers, reimbursements and credits	2.14%	2.68%	3.12%	3.84%	3.72%	
Portfolio Turnover Rate	47.05%	44.72%	33.07%	36.29%	39.97%	

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

U.S. TREASURY INDEX PORTFOLIO	CLASS D				
Selected per share data	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007	2006 <sup>(1)</sup>
<b>Net Asset Value, Beginning of Year</b>	<b>\$22.84</b>	<b>\$23.07</b>	<b>\$21.72</b>	<b>\$20.99</b>	<b>\$20.96</b>
INCOME (LOSS) FROM INVESTMENT OPERATIONS:					
Net investment income	0.50	0.63	0.77	0.81	0.80
Net realized and unrealized gains (losses)	0.43	(0.18)	1.27	0.70	0.04
Total from Investment Operations	0.93	0.45	2.04	1.51	0.84
LESS DISTRIBUTIONS PAID:					
From net investment income	(0.50)	(0.67)	(0.69)	(0.78)	(0.81)
From net realized gains	(0.52)	(0.01)	—	—	—
Total Distributions Paid	(1.02)	(0.68)	(0.69)	(0.78)	(0.81)
Net Asset Value, End of Year	\$22.75	\$22.84	\$23.07	\$21.72	\$20.99
<b>Total Return<sup>(2)</sup></b>	<b>4.30%</b>	<b>2.00%</b>	<b>9.62%</b>	<b>7.45%</b>	<b>4.12%</b>
SUPPLEMENTAL DATA AND RATIOS:					
Net assets, in thousands, end of year	\$50	\$49	\$57	\$1,186	\$910
Ratio to average net assets of:					
Expenses, net of waivers, reimbursements and credits	0.65%	0.65%	0.65%	0.65%	0.65%
Expenses, before waivers, reimbursements and credits	0.87%	0.86%	0.86%	0.94%	0.96%
Net investment income, net of waivers, reimbursements and credits	2.21%	2.74%	3.18%	3.98%	3.88%
Net investment income, before waivers, reimbursements and credits	1.99%	2.53%	2.97%	3.69%	3.57%
Portfolio Turnover Rate	47.05%	44.72%	33.07%	36.29%	39.97%

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

## FINANCIAL HIGHLIGHTS

INTERMEDIATE BOND PORTFOLIO		CLASS A				
Selected per share data	2010	2009	2008 <sup>(1)</sup>	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$21.18</b>	<b>\$19.55</b>	<b>\$19.89</b>	<b>\$20.07</b>	<b>\$20.03</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.57	0.71	0.74	1.01	0.97	
Net realized and unrealized gains (losses)	0.68	1.65	(0.34)	(0.17)	0.04	
Total from Investment Operations	1.25	2.36	0.40	0.84	1.01	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.57)	(0.73)	(0.74)	(1.02)	(0.97)	
Total Distributions Paid	(0.57)	(0.73)	(0.74)	(1.02)	(0.97)	
Net Asset Value, End of Year	\$21.86	\$21.18	\$19.55	\$19.89	\$20.07	
<b>Total Return<sup>(2)</sup></b>	<b>6.00%</b>	<b>12.28%</b>	<b>2.17%</b>	<b>4.30%</b>	<b>5.19%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$53,114	\$44,789	\$25,801	\$32,103	\$31,123	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.36%	0.36%	0.36%	0.36%	0.36%	
Expenses, before waivers, reimbursements and credits	0.72%	0.89%	0.81%	0.78%	0.77%	
Net investment income, net of waivers, reimbursements and credits	2.64%	3.45%	3.77%	5.12%	4.85%	
Net investment income, before waivers, reimbursements and credits	2.28%	2.92%	3.32%	4.70%	4.44%	
Portfolio Turnover Rate	801.81%	727.05%	558.33%	371.48%	392.92%	

		CLASS D				
Selected per share data	2010	2009	2008 <sup>(1)</sup>	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.70</b>	<b>\$19.12</b>	<b>\$19.88</b>	<b>\$20.06</b>	<b>\$20.02</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.47	0.61	0.81	0.95	0.89	
Net realized and unrealized gains (losses)	0.60	1.62	(0.95)	(0.21)	0.04	
Total from Investment Operations	1.07	2.23	(0.14)	0.74	0.93	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.49)	(0.65)	(0.62)	(0.92)	(0.89)	
Total Distributions Paid	(0.49)	(0.65)	(0.62)	(0.92)	(0.89)	
Net Asset Value, End of Year	\$21.28	\$20.70	\$19.12	\$19.88	\$20.06	
<b>Total Return<sup>(2)</sup></b>	<b>5.27%</b>	<b>11.86%</b>	<b>(0.57)%</b>	<b>3.79%</b>	<b>4.79%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$5	\$4	\$4	\$47	\$80	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.75%	0.75%	0.75%	0.75%	0.75%	
Expenses, before waivers, reimbursements and credits	1.11%	1.28%	1.20%	1.17%	1.16%	
Net investment income, net of waivers, reimbursements and credits	2.25%	3.06%	3.38%	4.73%	4.46%	
Net investment income, before waivers, reimbursements and credits	1.89%	2.53%	2.93%	4.31%	4.05%	
Portfolio Turnover Rate	801.81%	727.05%	558.33%	371.48%	392.92%	

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

FOR THE FISCAL YEARS ENDED NOVEMBER 30

SHORT BOND PORTFOLIO		CLASS A				
Selected per share data	2010	2009	2008 <sup>(1)</sup>	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$18.93</b>	<b>\$18.11</b>	<b>\$18.35</b>	<b>\$18.33</b>	<b>\$18.24</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.49	0.46	0.57	0.87	0.81	
Net realized and unrealized gains (losses)	0.14	0.84	(0.23)	0.03	0.09	
Total from Investment Operations	0.63	1.30	0.34	0.90	0.90	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.51)	(0.48)	(0.58)	(0.88)	(0.81)	
Total Distributions Paid	(0.51)	(0.48)	(0.58)	(0.88)	(0.81)	
Net Asset Value, End of Year	\$19.05	\$18.93	\$18.11	\$18.35	\$18.33	
<b>Total Return<sup>(2)</sup></b>	<b>3.36%</b>	<b>7.24%</b>	<b>1.86%</b>	<b>5.03%</b>	<b>5.05%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$175,313	\$193,337	\$115,874	\$130,477	\$174,851	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.36%	0.36%	0.36%	0.36%	0.36%	
Expenses, before waivers, reimbursements and credits	0.58%	0.59%	0.58%	0.56%	0.57%	
Net investment income, net of waivers, reimbursements and credits	2.52%	2.48%	3.13%	4.76%	4.49%	
Net investment income, before waivers, reimbursements and credits	2.30%	2.25%	2.91%	4.56%	4.28%	
Portfolio Turnover Rate	432.78%	903.45%	508.41%	168.98%	446.57%	

		CLASS D				
Selected per share data	2010	2009	2008 <sup>(1)</sup>	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$18.88</b>	<b>\$18.07</b>	<b>\$18.30</b>	<b>\$18.27</b>	<b>\$18.19</b>	
INCOME (LOSS) FROM INVESTMENT OPERATIONS:						
Net investment income	0.38	0.36	0.52	0.79	0.73	
Net realized and unrealized gains (losses)	0.17	0.85	(0.26)	0.03	0.09	
Total from Investment Operations	0.55	1.21	0.26	0.82	0.82	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.43)	(0.40)	(0.49)	(0.79)	(0.74)	
Total Distributions Paid	(0.43)	(0.40)	(0.49)	(0.79)	(0.74)	
Net Asset Value, End of Year	\$19.00	\$18.88	\$18.07	\$18.30	\$18.27	
<b>Total Return<sup>(2)</sup></b>	<b>2.97%</b>	<b>6.79%</b>	<b>1.47%</b>	<b>4.60%</b>	<b>4.61%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$66	\$55	\$44	\$327	\$292	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.75%	0.75%	0.75%	0.75%	0.75%	
Expenses, before waivers, reimbursements and credits	0.97%	0.98%	0.97%	0.95%	0.96%	
Net investment income, net of waivers, reimbursements and credits	2.13%	2.09%	2.74%	4.37%	4.10%	
Net investment income, before waivers, reimbursements and credits	1.91%	1.86%	2.52%	4.17%	3.89%	
Portfolio Turnover Rate	432.78%	903.45%	508.41%	168.98%	446.57%	

(1) Net investment income for the year ended was calculated using the average shares outstanding method.

(2) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

## FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEARS ENDED NOVEMBER 30

U.S. GOVERNMENT SECURITIES PORTFOLIO		CLASS A				
Selected per share data	2010	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.96</b>	<b>\$20.34</b>	<b>\$19.57</b>	<b>\$19.48</b>	<b>\$19.33</b>	
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income	0.25	0.35	0.60	0.89	0.84	
Net realized and unrealized gains	0.37	0.63	0.77	0.10	0.16	
Total from Investment Operations	0.62	0.98	1.37	0.99	1.00	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.28)	(0.36)	(0.60)	(0.90)	(0.85)	
From net realized gains	(0.53)	—	—	—	—	
Total Distributions Paid	(0.81)	(0.36)	(0.60)	(0.90)	(0.85)	
Net Asset Value, End of Year	\$20.77	\$20.96	\$20.34	\$19.57	\$19.48	
<b>Total Return<sup>(1)</sup></b>	<b>3.02%</b>	<b>4.88%</b>	<b>7.15%</b>	<b>5.25%</b>	<b>5.31%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$66,912	\$77,116	\$72,092	\$67,176	\$69,757	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.36%	0.36%	0.36%	0.36% <sup>(2)</sup>	0.36% <sup>(2)</sup>	
Expenses, before waivers, reimbursements and credits	0.65%	0.66%	0.65%	0.63%	0.63%	
Net investment income, net of waivers, reimbursements and credits	1.23%	1.68%	2.99%	4.61%	4.35%	
Net investment income, before waivers, reimbursements and credits	0.94%	1.38%	2.70%	4.34%	4.08%	
Portfolio Turnover Rate	1,227.07%	1,572.96%	1,243.35%	1,322.04%	841.27%	

		CLASS D				
Selected per share data	2010	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Year</b>	<b>\$20.90</b>	<b>\$20.28</b>	<b>\$19.53</b>	<b>\$19.41</b>	<b>\$19.26</b>	
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income	0.24	0.30	0.56	0.86	0.81	
Net realized and unrealized gains	0.30	0.60	0.72	0.06	0.11	
Total from Investment Operations	0.54	0.90	1.28	0.92	0.92	
LESS DISTRIBUTIONS PAID:						
From net investment income	(0.20)	(0.28)	(0.53)	(0.80)	(0.77)	
From net realized gains	(0.53)	—	—	—	—	
Total Distributions Paid	(0.73)	(0.28)	(0.53)	(0.80)	(0.77)	
Net Asset Value, End of Year	\$20.71	\$20.90	\$20.28	\$19.53	\$19.41	
<b>Total Return<sup>(1)</sup></b>	<b>2.67%</b>	<b>4.49%</b>	<b>6.65%</b>	<b>4.90%</b>	<b>4.91%</b>	
SUPPLEMENTAL DATA AND RATIOS:						
Net assets, in thousands, end of year	\$72	\$99	\$111	\$143	\$233	
Ratio to average net assets of:						
Expenses, net of waivers, reimbursements and credits	0.75%	0.75%	0.75%	0.75% <sup>(2)</sup>	0.75% <sup>(2)</sup>	
Expenses, before waivers, reimbursements and credits	1.04%	1.05%	1.04%	1.02%	1.02%	
Net investment income, net of waivers, reimbursements and credits	0.84%	1.29%	2.60%	4.22%	3.96%	
Net investment income, before waivers, reimbursements and credits	0.55%	0.99%	2.31%	3.95%	3.69%	
Portfolio Turnover Rate	1,227.07%	1,572.96%	1,243.35%	1,322.04%	841.27%	

(1) Assumes investment at net asset value at the beginning of the year, reinvestment of all dividends and distributions, and a complete redemption of the investment at net asset value at the end of the year.

(2) The net expense ratio includes custodian credits of approximately \$12,000 and \$8,000, which represents 0.02% and 0.01% of average net assets for the fiscal years ended November 30, 2007 and November 30, 2006, respectively. Absent the custodian credit arrangement, expense reimbursement would have been increased by a corresponding amount.

THIS PAGE INTENTIONALLY LEFT BLANK

**FOR MORE INFORMATION****ANNUAL/SEMIANNUAL REPORTS AND STATEMENT OF ADDITIONAL INFORMATION ("SAI")**

Additional information about the Portfolios' investments is available in the Portfolios' annual and semiannual reports to shareholders. In the Portfolios' annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Portfolios' performance during their last fiscal year.

Additional information about the Portfolios and their policies also is available in the Portfolios' SAI. The SAI is incorporated by reference into this Prospectus (and is legally considered part of this Prospectus).

The Portfolios' annual and semiannual reports and the SAI are available free upon request by calling the Northern Institutional Funds Center at 800-637-1380 or by sending an e-mail request to: [northern-funds@ntrs.com](mailto:northern-funds@ntrs.com). The SAI and other information are available from a financial intermediary (such as a broker-dealer or bank) through which the Portfolios' shares may be purchased or sold.

**TO OBTAIN OTHER INFORMATION AND FOR SHAREHOLDER INQUIRIES:****BY TELEPHONE**

Call 800-637-1380

**BY MAIL**

Northern Institutional Funds  
P.O. Box 75986  
Chicago, IL 60675-5986

**ON THE INTERNET**

The Portfolios' documents are available online and may be downloaded from:

- The SEC's Web site at [sec.gov](http://sec.gov) (text-only)
- Northern Institutional Funds' Web site at [northernfunds.com/institutional](http://northernfunds.com/institutional)

You may review and obtain copies of Northern Institutional Funds' documents by visiting the SEC's Public Reference Room in Washington, D.C. You also may obtain copies of Northern Institutional Funds' documents by sending your request and a duplicating fee to the SEC's Public Reference Section, Washington, D.C. 20549-1520 or by electronic request to: [publicinfo@sec.gov](mailto:publicinfo@sec.gov). Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-551-8090.