

Richard G. Cline  
Hawthorne Investors, Inc.  
4200 Commerce Court, Suite 300  
Lisle, Illinois 60532

August 14, 2006

Nancy M. Morris, Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Investment Company Governance/SEC File No. S7-03-04

Dear Ms. Morris:

I am Chairman and an independent member of the three Boards of Trustees (together, the “Boards”) of the Northern Institutional Funds, Northern Funds and the Northern Multi-Manager Funds (together, the “Funds”). I write on behalf of the Boards to comment on the rule amendments adopted by the SEC in 2004 that are intended to enhance the independence of investment company directors and improve their ability to protect registered investment companies and their shareholders.

The Commission has requested comments on the monetary and non-monetary costs associated with the independent chairperson (“Independent Chair Condition”) and 75% director independence (“75% Condition”) requirements. In addition, the Commission has requested comments on any issue related to the underlying purpose of the two requirements and, specifically, whether the two conditions “promote efficiency, competition and capital formation.”

### **Background on the Northern Boards**

The Funds currently have 58 portfolios with total assets of approximately \$53 billion. As independent Trustees, we support the initiatives of the Commission to enhance our independence and effectiveness as set forth in the Commission’s Releases No. IC-26323 (January 15, 2004) and No. IC-26520 (July 27, 2004).

Currently, the Boards of Trustees of Northern Funds and Northern Institutional Funds consist of nine persons – seven independent Trustees; one non-management Trustee who is not (and has not been) a director, officer or employee of the Funds’ investment advisers (or their affiliates) but is an “interested Trustee” as defined in Section 2(a)(19) of the Investment Company Act of 1940 (“1940 Act”) for other reasons; and one Trustee who is an officer and employee of the Funds’ investment advisers. These two Boards are therefore currently 75% independent. Prior to 2004, however, the two Boards were 66% independent.

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The Board of Trustees of the Multi-Manager Funds (“Multi-Manager Board”) of the Northern Funds consists of the same nine Trustees; however, one of the independent Trustees identified above is considered “interested” for purposes of the Multi-Manager Board because that Trustee has an interest in the parent company of two of the sub-advisers to the Multi-Manager Funds. Consequently, the Multi-Manager Board currently is 66% independent, consisting of six independent Trustees; two interested non-management Trustees; and one interested management Trustee. The Multi-Manager Funds currently have three portfolios that are sub-advised by 11 different sub-advisers. More Multi-Manager Funds and sub-advisers are expected to be added in the near future. Many of the existing Multi-Manager Fund sub-advisers are widely held or have widely-held parent companies. As a result, maintaining Trustee independence with respect to these sub-advisers has been extremely challenging as is discussed in more detail below.

As previously stated, I am the Chairman of the Funds’ Boards and am an independent Trustee. Additionally, all members of the Audit Committees of the Boards and the Boards’ Governance Committees (which consider governance matters, including the selection and nomination of independent Trustees) are independent Trustees. The Boards and these committees meet regularly in executive session without members of management present. Moreover, the Boards and these committees, through their respective chairs, provide significant, substantive input on meeting agenda, confer regularly with the Funds’ independent auditors and independent legal counsel and interact frequently among themselves and with the Funds’ adviser and service providers on a variety of matters.

We believe that our nine-person Boards function quite well primarily because our size encourages all members to participate fully and to communicate openly with one another. We further believe that our Boards, as currently constituted, function together as a strong, independent force within the Northern complex and that there are no differences in effectiveness whether the Boards are 75% independent as are two of our Boards, 66% independent as is the Multi-Manager Board currently and the other two Boards prior to 2004, or a majority independent as the Northern Funds Board has functioned at times in the past. In that regard, our experience generally has been that the numbers of independent Trustees (in excess of a majority) matter less than the knowledge and expertise of the independent Trustees, the leadership skills of the Board and committee chairs, the extent of participation of independent legal counsel and other similar factors. Our more specific comments follow.

### **Independent Chair Condition**

The Northern and Northern Institutional Funds have had independent chairs since 1999, and the Northern Multi-Manager Fund was launched this year with an independent chair. Our experience with the Independent Chair Condition has been positive, and we believe that the benefits associated with this aspect of the rule more than outweigh the modest costs associated with it. For that reason, we continue to support the Independent Chair Condition and have confined our comments in the remainder of this letter to the 75% Condition.

### **75% Condition**

Our experience with the 75% Condition, particularly in the past year, has proved to be quite difficult – particularly in connection with our recently formed Multi-Manager Funds – and we would urge the Commission to reconsider the requirement and retain the prior majority independence requirement. At the outset, we note that the Northern and Northern Institutional Boards have attempted to comply with the 75% Condition over the past two years. Most of the comments we provide below are therefore based on our actual experience with the supermajority requirement.

*Retaining additional independent Trustee/Increased Shareholder Meetings.* We believe that the 75% Condition will probably cause us to retain more Trustees than we otherwise would have with a lower mathematical threshold and thereby result in increased numbers of shareholder meetings to approve these Trustees. While two of our Boards are currently 75% independent, if the 75% Condition is adopted these Boards and the Multi-Manager Board may consider retaining additional independent Trustees to provide some cushion in case of unexpected resignations, illness, independence or similar issues. Even if we do not immediately retain additional Trustees, at our current size the Boards cannot afford to lose even one Trustee under a supermajority requirement and will inevitably need to hire new Trustees to maintain a supermajority. The annual average compensation for an independent Trustee in the Funds' 2006 fiscal year was approximately \$117,000. There would also be substantial time involved in searching for, recruiting and evaluating each new independent Trustee by the Governance Committees and the Boards.

Moreover, the time invested in searching for, evaluating and recruiting new Trustees will increase and the process will become more complex with the addition of 11 or more sub-advisers to our complex. There are currently extensive monitoring requirements and ownership and affiliation restrictions imposed on our independent Trustees to maintain their independence with respect to these sub-advisers. These restrictions and monitoring responsibilities are expected to increase as new sub-advisers are added to the complex and/or existing sub-advisers experience consolidation with other organizations (and changes in ownership). If fewer candidates are willing and able to serve because of these restrictions, the Boards will spend more time searching for and recruiting qualified candidates and the 75% Condition will add to the time and complexity of the process because of the additional Trustees needed to satisfy the supermajority requirement. A majority requirement would lessen the search and recruiting time for the Boards.

Our Funds will also experience increased legal and compliance expenses with respect to evaluating the Trustees and Officers Questionnaires completed by new Trustees, training each new independent Trustee and documenting the selection process. These expenses could easily reach \$50-75,000 for each new Trustee.

In addition, the 75% condition will likely cause our Boards, and all boards, to hold more shareholder meetings to approve Trustees than we otherwise would have with a lower threshold.<sup>1</sup> This result follows from the fact that more Trustees will be needed to maintain a supermajority of independent Trustees than would be necessary, for example, to maintain a majority of independent Trustees. The legal and other costs associated with obtaining shareholder approval in a complex of our size are estimated to be approximately \$100,000 per meeting.

Loss of expertise of the existing Trustees. Alternatively, it has been suggested that one way for boards to avoid the costs associated with additional shareholder meetings and the additional time and costs associated with retaining additional directors is to reduce the number of directors on the board. However, we believe that this strategy is counterproductive and will not serve our shareholders' best interests. First, we believe that a reduction in the number of Trustees will lessen the effectiveness of our Boards because all of our members make significant contributions to the Boards' deliberations. In particular, our Committee and Board chairs have invested significant time in learning their respective subject areas and specific Fund-related operational and other issues.

Second, the independent Trustees believe that there is a significant benefit to having a management representative on the Boards because of the valuable operational insights and practical knowledge this Trustee brings to our deliberations. We view the 75% Condition as reducing our ability to retain a management representative on the Boards; and we believe that the loss of management expertise on our Board could also adversely impact our effectiveness.

We strongly believe that it is in shareholders' best interests for us to retain as many of our existing Trustees as possible. If the Commission retains the majority requirement, our Boards generally will be able to retain the expertise of more of our Trustees.

Increased Compliance Monitoring Expenses. The 75% Condition has already increased our ongoing compliance monitoring costs with respect to the maintenance of the independence of our current Trustees. We saw these costs increase dramatically with the addition of 11 different sub-advisers to our complex. In that regard, we have found that complying with Section 2(a)(19) in the case of one or two advisers is not particularly difficult. However, when the number of advisers multiplies to 11 or more, Section 2(a)(19) becomes a veritable minefield and the 75% Condition makes complying with that statute more difficult and costly than a rule requiring a simple majority. We estimate that the increased costs of independence monitoring on the part of

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<sup>1</sup> Section 16(a) of the 1940 Act provides that a board may fill a vacancy on the board if immediately after the appointment, at least two-thirds of the directors then holding office have been elected by shareholders. The Funds would need to obtain shareholder approval for any new Trustees in order to meet the requirements of Section 16(a).

the Funds' compliance staff and our legal counsel in connection with the addition of more Trustees to be approximately \$10,000-20,000 annually per additional Trustee.

*Inefficiencies and redundancies.* The inefficiencies and redundancies that we have identified with the 75% Condition include, but are not necessarily limited to: extra shareholder meetings; additional review, recruiting, search and monitoring time to maintain a supermajority of independent Trustees; and additional documentation associated with establishing compliance with the 75% Condition. These inefficiencies are not, in our view, counterbalanced by any corresponding increase in Board effectiveness or independence or benefit to shareholders.

*Other SEC safeguards bolster board independence.* Finally, we believe that the 75% Condition has become largely unnecessary in the face of the many SEC rules adopted in the last two years as well as other industry developments that have increased the effectiveness and voice of independent directors. These measures include but are not limited to SEC requirements for: (i) the independent directors to meet separately at each quarterly meeting; (ii) the board to conduct a self-assessment of both board and committee effectiveness on an annual basis; (iii) disclosure of a board's (and the independent directors') considerations in approving advisory and sub-advisory agreements; (iv) requiring that the independent directors rely on independent legal counsel to the extent the independent directors retain counsel and the ability of independent directors to hire other advisers; and (v) requiring the independent directors to select and nominate other independent directors. Moreover, the responsibilities given to independent directors under Rule 38a-1 with respect to the chief compliance officer ("CCO"), including required private meetings among the CCO and the independent directors, have also significantly enhanced the effectiveness and authority of the independent directors over fund operations and compliance. The growth of industry groups like the Independent Directors Council and the Mutual Fund Directors Forum also lessens the need for the 75% Condition. These groups have contributed significantly to the effectiveness of independent directors through (i) educational opportunities in which independent directors can interact with their peers and (ii) white papers discussing independence best practices that are widely disseminated to and read by independent directors as well as the rest of the mutual fund industry. Further, we continue to support the Independent Chair Condition, which we think is an important governance safeguard that, together with independent audit committee and nominating committee chairs and the audit committee financial expert, contributes significantly to the effectiveness of independent directors. We believe that the Independent Chair Condition coupled with a requirement for a majority of independent directors will prove to be as effective as the 75% Condition, with less cost and adverse consequences to shareholders.

## **Summary**

In closing, our Boards believe that the spirit and purpose of the 75% Condition can be effectively accomplished with a simple majority of independent Trustees together with the Independent Chair Condition. We believe this to be especially true given the numerous safeguards that have been added through SEC governance and other rules adopted in the last two years and the growth

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of industry best practices with respect to governance. Simply put, independent directors generally have many more resources, authority and influence within mutual fund complexes as a result of recent SEC rules and increased access to information regarding governance best practices than they did several years ago when the 75% Condition was first proposed. For these reasons, we believe that these industry and regulatory developments have obviated the need for the 75% Condition if there ever was one.

In closing and on behalf of each of the Northern Boards, I wish to thank you for this opportunity to comment.

Respectfully submitted,

/s/Richard G. Cline  
Richard G. Cline  
Chairman of the Board  
Northern Funds  
Northern Institutional Funds  
Northern Multi-Manager Funds

cc: Other Trustees  
William L. Bax  
Edward J. Condon  
Sharon Gist Gilliam  
Sandra P. Guthman  
Michael P. Murphy  
Mary Jacobs Skinner  
Richard P. Strubel  
Terence Toth

The Northern Trust Company  
Lloyd Wennlund  
Craig Carberry, Esq.

Independent Legal Counsel  
Diana E. McCarthy, Esq.

SEC Commissioners  
The Honorable Chairman Christopher Cox  
Commissioner Annette L. Nazareth  
Commissioner Kathleen L. Casey  
Commissioner Paul S. Atkins  
Commissioner Roel C. Campos