

The Power of the Portfolio

INVESTMENT REPORT

2016 GENERAL ACCOUNT YEAR IN REVIEW





Ronald P. Joelson

Executive Vice President
& Chief Investment Officer

WHAT'S AHEAD FOR 2017?

Q&A with Ron Joelson

The economy and markets.
The political impact.
Opportunities and obstacles.

Ron Joelson answers the most frequently asked questions about the big picture for 2017 and how the investment team plans to navigate it.

GENERAL ACCOUNT – PRIMARY GOALS

**HIGHEST FINANCIAL
STRENGTH RATINGS**
AWARDED TO ANY
LIFE INSURER

SUPERIOR RETURNS
FOR POLICYOWNER
DIVIDENDS

Q: Starting simple, where does the economy stand now?

Ron: In a word: solid. Most of the economic indicators are positive. Many economists feel that the U.S. is at or near full employment, and I tend to agree. Consumer confidence is growing, meaning spending is up. The consumer is healthy, too, with more savings and less debt. Manufacturing is also improving, though at a slower pace.

Overseas, we're finally seeing real global growth. After a post-financial-crisis slump far longer than ours, the developed economies of Europe and Japan are looking better.

The risk of recession is lower than it's been in years. However, I wouldn't expect the economy to grow quickly. We're still stuck in the same 1.5-2.5% real GDP range we've been in since the great recession.

Q: What dominant events and trends has 2017 inherited from 2016 and before?

Ron: Clearly, 2016 took everybody by surprise. You can start with the presidential election, but we also got the equally unexpected news that Britain is on a path toward leaving the EU. Politics and the economy are entwined. Both will have far-reaching effects, though we can't know today exactly what to expect.

In terms of continuing trends, the Fed's ending quantitative easing and embarking on a path of increasing interest rates is an important shift, though implementation has been gradual, as predicted. We're now watching to see if other developed economies do the same. They've followed our lead thus far, but they lag behind the U.S. and are still highly accommodative. I expect them to follow the Fed, beginning with a slowing of open market purchases. Also, U.S. stocks continue to do well, although lower growth prospects and higher PE multiples suggest that performance from here may be muted.



CONTENTS



GENERAL ACCOUNT OVERVIEW



QUALITY



2016 YEAR IN REVIEW



ESSENTIAL DIVERSIFIERS

REAL ESTATE AND PRIVATE EQUITY



INVESTMENT MANAGEMENT TEAM

The news about demographics and productivity is that there isn't any. It's easy to forget that fundamental trends like these have profound and lasting impacts on the economy. Here, zero meaningful movement still puts a fairly low ceiling on our growth rate. But now that businesses have started investing again we hope to see improvements in productivity. And if they're significant, I'll be back for another Q&A, this time on employment.

For now, we're seeing a continuation of the low-and-slow growth that's been with us awhile.

Q: Focusing on the economic impact of the Trump administration, what are you monitoring?

Ron: BREXIT was proof that the new populism we associated with Trump's win wasn't confined to the U.S. And 2017 is a big election year for the EU, with major races in Germany, France and elsewhere. In the Netherlands' mid-March election for prime minister, the seemingly popular populist

candidate was soundly defeated by the majority party. So, will there be similar affirmations of the status quo or Trump- and BREXIT-like directional shifts elsewhere? We'll have to wait and see.

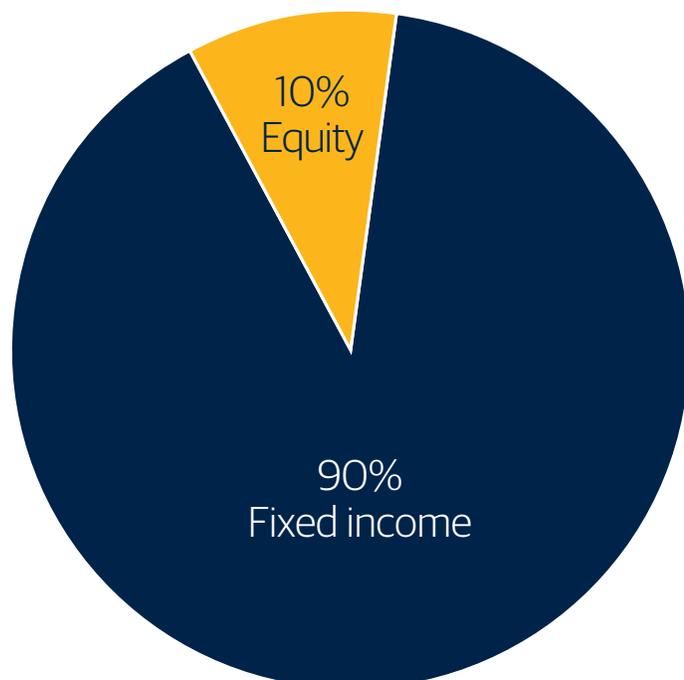
But, while this trend of new populism is present here and abroad, there's one essential difference. In the U.S., it's distinctly pro-business. In Europe, it isn't so clear. Trump's pro-business stance is a key driver behind the sweeping changes the administration wants to effect in trade and the tax structure, as well as major spending on infrastructure. If successful, these could be game-changers. But each of these ambitions takes time and faces serious resistance. This was front and center with the failure to repeal and replace the Affordable Care Act. That will make reform difficult and compromise between and within the political parties even more difficult. So, again, it's wait and see.

GENERAL ACCOUNT OVERVIEW

It's about results over time. Active portfolio management, diversification and a long-term perspective are behind our investment portfolio's track record of consistently strong performance.

ALLOCATION

A majority of investment-grade fixed income, with a balance of high-yield bonds and equities - we've found that these are the ingredients for above-average returns through a variety of business cycles and economic conditions.



Long-term target allocations

Q: 83% of the General Account is invested in lower-risk assets that are highly sensitive to interest rates. What positive impact has this new era of rising rates had on the portfolio?

Ron: Honestly, not much. At least not yet. Of course, rising rates was welcome news. It's the right thing to keep our now strong economy from overheating. And it's good for insurance companies and others who have fixed liabilities.

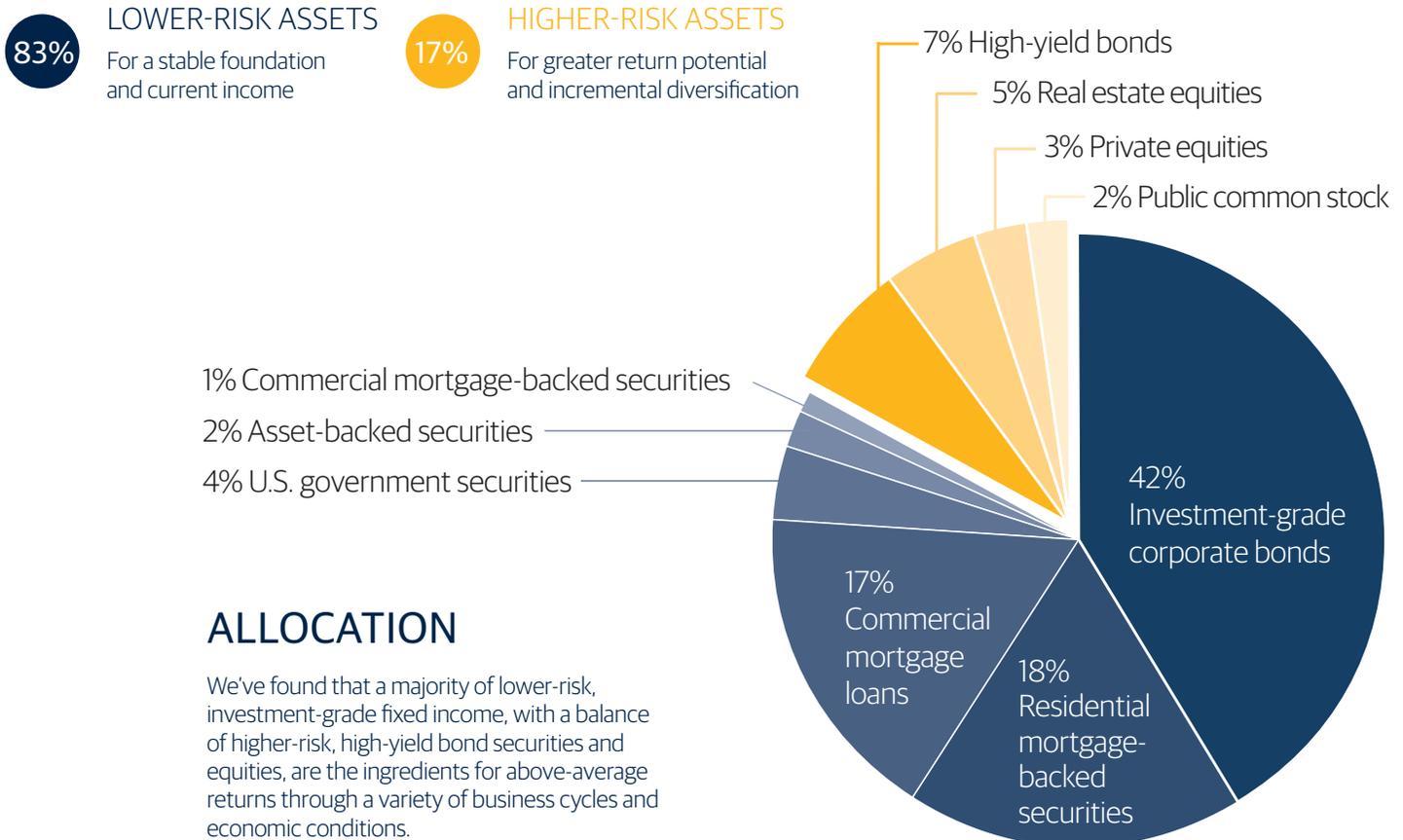
But there are a few reasons we're not fist pumping and back slapping. First, it's not that interest rates were, and still are, very low that hurts our performance. It's that they've been low for so long. We're a more than \$200 billion portfolio. So, it took us a while to fully invest in the ultralow rates environment, and it's going to take us a while to fully invest at higher rates. And, they haven't moved much.

Second, while the Fed's new path has improved yields on shorter maturity bonds, longer maturity bonds — where we invest significantly — have barely moved. The yield curve has flattened. That's another way in which we're not benefiting from the shift. Finally, we also rely on credit risk for yield. But when the probability of a recession is as low as it is now, companies' risk of defaulting drops, credit spreads come in, and that's yet one more way we're not getting the yield we were hoping for.

We need to set realistic expectations. And the reality is that this is going to take time. Having said that, our exposure to risk assets is greater than our competitors', and performance in real estate, private equity and high-yield has been strong. That helps offset the interest rate picture somewhat.



GENERAL ACCOUNT OVERVIEW



ALLOCATION

We've found that a majority of lower-risk, investment-grade fixed income, with a balance of higher-risk, high-yield bond securities and equities, are the ingredients for above-average returns through a variety of business cycles and economic conditions.

Long-term target allocations
May not add to 100% due to rounding.

"Lower risk" and "higher risk" are general indications of the relative risk of loss of a particular type of investment compared to other investments. Generally, in investing, higher-risk investments offer greater potential return. All investments carry some risk of loss.

The vast majority of the company's managed assets back most of its life, disability income and Portfolio Income Annuity liabilities. The investment strategies described in this update apply to the investment of those assets. A portion of managed assets backs the remaining liabilities (primarily fixed deferred annuities, income plans and long-term care insurance), which have different investment exposures. When purchasing the company's life insurance and annuity products, clients are not investing in the company's General Account portfolio but purchasing products backed by the financial strength of Northwestern Mutual. Long-term care insurance is issued by Northwestern Long Term Care Insurance Company, Milwaukee, WI, a subsidiary of Northwestern Mutual.

Also see Reporting Considerations, page 15.

Q: What are some of the team's 2017 strategies for achieving the best possible performance?

Ron: "Are we getting paid for the risks we're taking?" That's how we assess our investments across all asset classes. Right now, that rewards-for-the-risk proposition is still compelling in commercial mortgages and private equities, so we're pursuing quality opportunities there.

And though there's still room for growth in U.S. stocks, we're increasingly seeing opportunities in international equities, including emerging markets, and are taking advantage of attractive valuations. We're closely monitoring trends in the dollar because currency value factors heavily in investing success there.

Finally, we're staying ahead of trends. We're following Millennials' buying habits (hint: they're more experiential than material) and investing in a way that reflects demographic patterns. We're avoiding investing in traditional companies that we see as susceptible to technological disruptions. This is where having a team with deep experience really pays off.

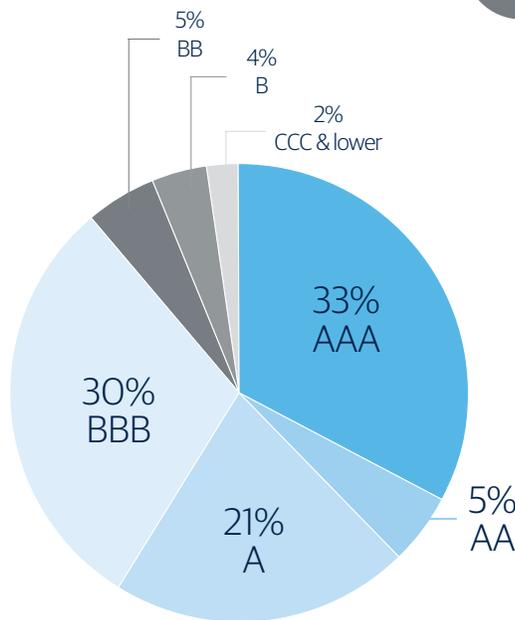
We're also seeing opportunities in less traditional markets and have developed expertise to take advantage of them. These include infrastructure investing, securities backed by pools of "hard" assets (e.g., equipment leases), single-loan commercial mortgage-backed securities (where we combine the expertise of our structured teams and real estate team), real estate loans to retirement communities and emerging market

QUALITY

Nearly 90% of the bond and preferred stock portfolio is investment grade. And we're committed to continuing to earn the highest financial strength ratings awarded to any insurer, a record we've maintained.

89% INVESTMENT GRADE

11% BELOW INVESTMENT GRADE



Average Duration
5-6 YEARS
short-intermediate

A shorter relative duration means our bond portfolio is not overly sensitive to changes in the interest rate environment.

Bond portfolio duration: Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. For example, a five-year duration means a bond is expected to increase in value by about 5% if interest rates fall 1% and decrease in value by about 5% if interest rates rise 1%.

debt. These efforts, combined with our traditional asset classes, should continue to help deliver the outstanding product values our policyowners have come to expect.

Not all questions I've been getting have certain answers, but, unquestionably, one thing I can say with certainty: we appreciate your continued trust in our managing the General Account. And we thank you for it.



Ronald P. Joelson
Executive Vice President
& Chief Investment Officer

QUALITY

Fixed-income investment quality¹	Rated investment grade BBB or better	Highest quality rating AAA
Public bonds, private bonds and preferred stock	89%	33%
Residential mortgage-backed securities	99.6%	99.4%
Commercial mortgage-backed securities	96%	81%

NORTHWESTERN MUTUAL – HIGHEST FINANCIAL STRENGTH RATINGS AWARDED TO ANY INSURER

<p>Aaa HIGHEST Moody's Investors Service</p>	<p>A++ HIGHEST A.M. Best Company</p>	<p>AAA HIGHEST Fitch Ratings</p>	<p>AA+ SECOND HIGHEST Standard & Poor's</p>
---	---	---	--

"We regard Northwestern's financial risk profile as extremely strong, which reflects its extremely strong capital adequacy, intermediate risk position, and adequate financial flexibility."

S&P Global Ratings, June 2016

¹ Credit quality is defined as the ability of the issuer to pay interest and principal on a timely basis. These ratings are based on the lower of the credit ratings from Standard & Poor's, Moody's Investors Service or Fitch Ratings when available, or internal rating evaluations when third-party ratings are not available. Excludes commercial mortgage loans and money market investments.

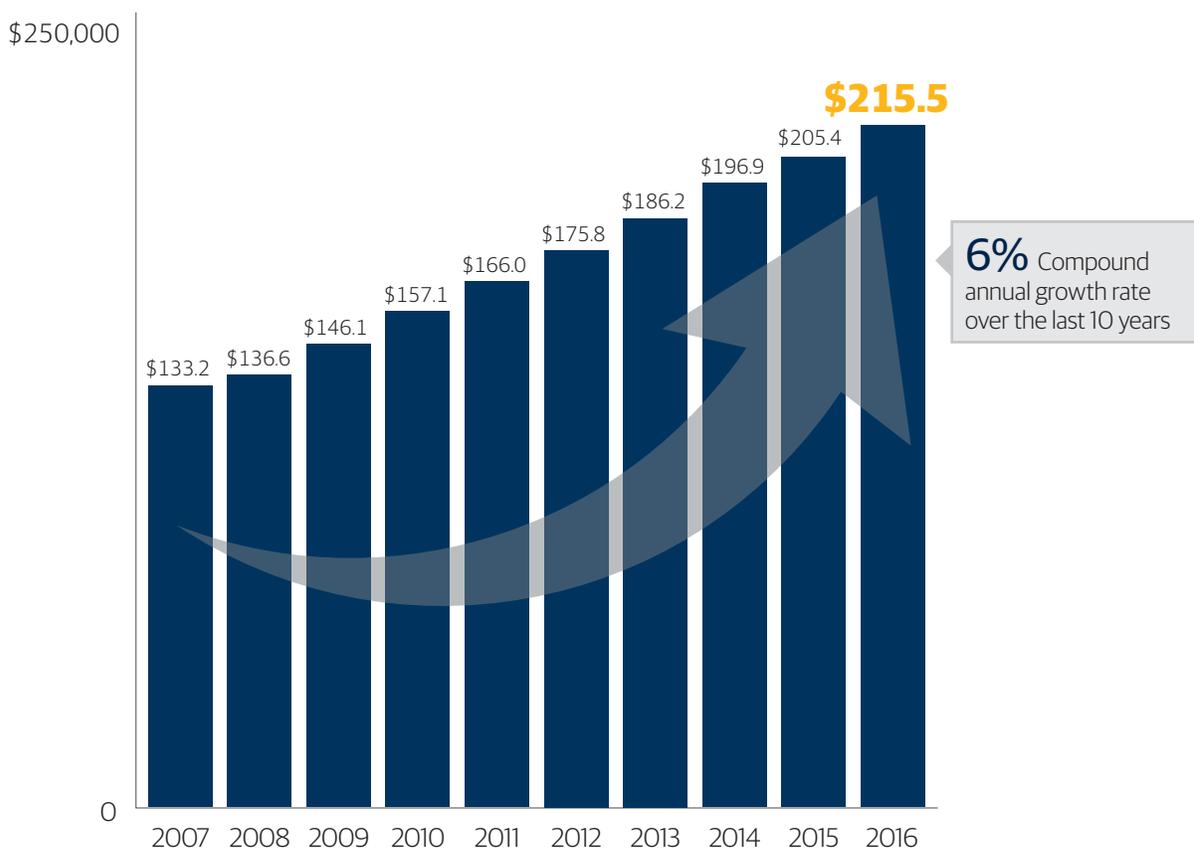
Third-party ratings are subject to change. *Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.* Third-party ratings are a measure of the company's relative financial strength and security but are not a reflection of the performance or stability of funds invested in a company's separate accounts.

2016 YEAR IN REVIEW

Over the past 10 years, total invested assets and net investment income have shown consistent growth, and capital gains have also contributed to investment earnings. Together, these contribute significantly to Northwestern Mutual's dividend-paying capacity and increases in total surplus, further improving the company's financial strength.

TOTAL INVESTED ASSETS

in billions



Includes investment income due and accrued.

TOTAL ASSETS

	2015 (in millions)	Change	2016 (in millions)
Managed assets			
Fixed-income investments			
Money market investments	\$ 1,404	+50.9%	\$ 2,119
Public bonds and preferred stock	\$ 107,685	+3.9%	\$ 111,922
Private bonds and preferred stock	\$ 31,803	+8.1%	\$ 34,367
Commercial mortgage loans	\$ 30,846	+6.0%	\$ 32,697
Total fixed-income investments	\$ 171,738	+5.5%	\$ 181,105
Equity investments			
Real estate	\$ 6,282	-0.3%	\$ 6,263
Public common stock	\$ 3,845	+3.8%	\$ 3,990
Private equities ¹	\$ 5,333	+7.1%	\$ 5,711
Total equity investments	\$ 15,460	+3.3%	\$ 15,964
Total	\$ 187,198	+5.3%	\$ 197,069
Loans on policies	\$ 17,146		\$ 17,150
Other investments	\$ 1,030		\$ 1,258
Total invested assets²	\$ 205,374		\$ 215,477
Other assets	\$ 6,367		\$ 6,405
Separate account business	\$ 26,731		\$ 28,559
Total	\$ 238,472		\$ 250,441

Quality
breakdown,
pp. 6-7

2016 managed assets portfolio in detail

Aggregate investment write-downs: \$335 million

10-year investment write-down average: \$385 million

Losses as a percentage of total managed assets: 0.1%

Commercial mortgage loans aggregate loan-balances-to-fair-value-of-collateral ratio: 53%

¹As presented in this report, private equities include direct investments in certain subsidiaries and affiliates.

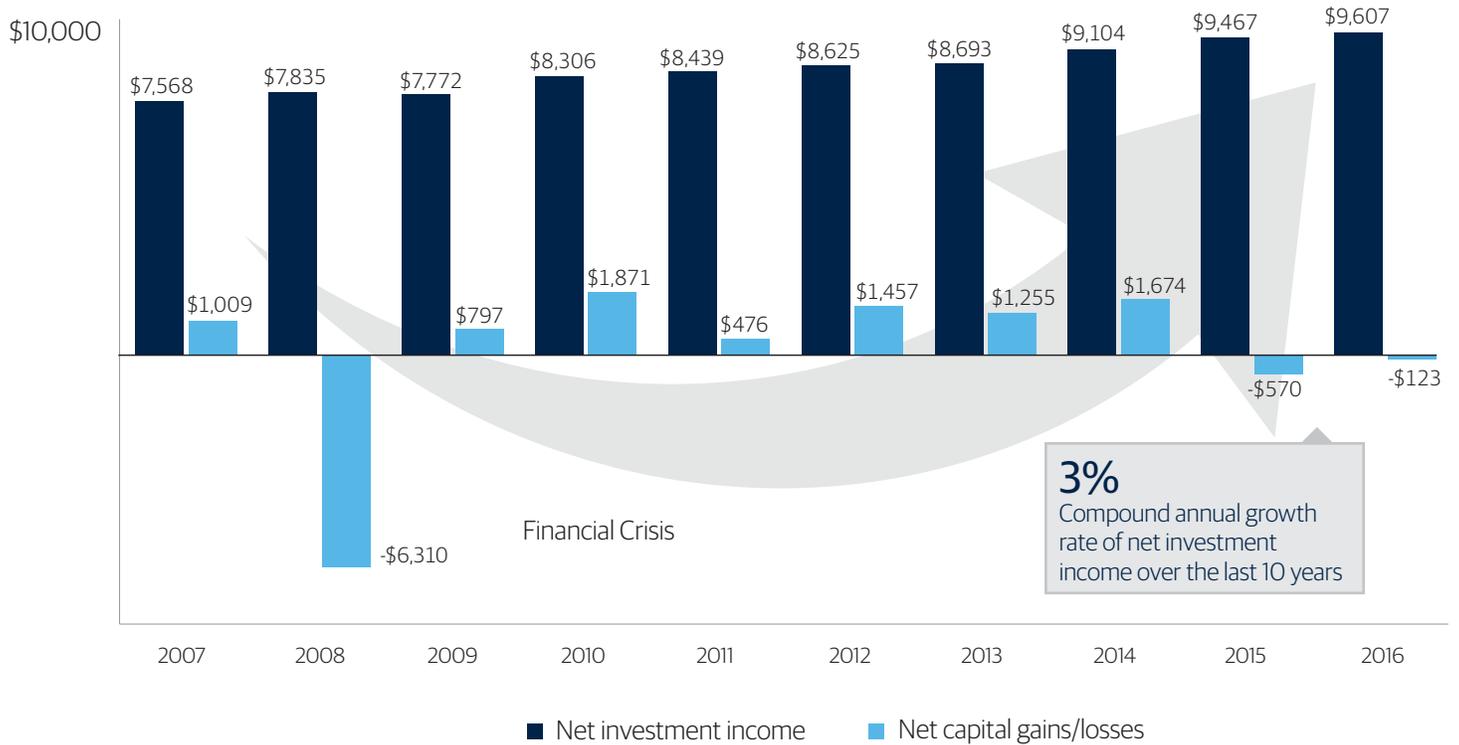
²Includes investment income due and accrued of \$1,883 million in 2016 and \$1,906 million in 2015.

Note: Please read table above in conjunction with Reporting Considerations, p.15 of this publication.

NET INVESTMENT INCOME

Net investment income and net capital gains/losses

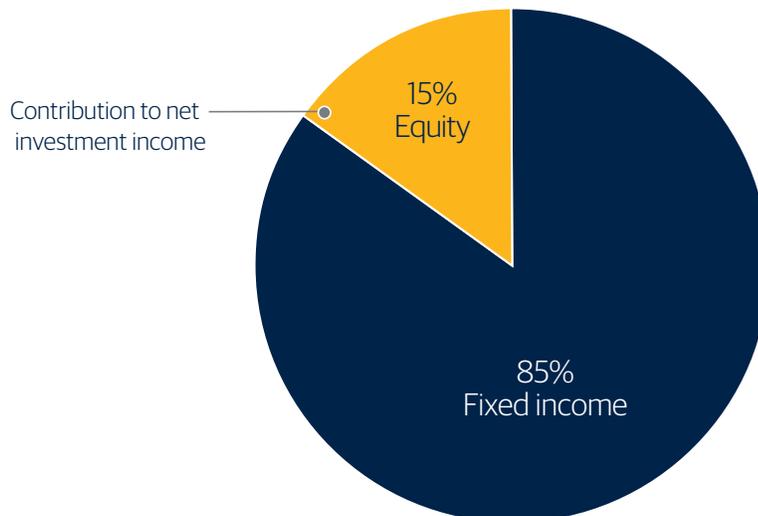
in millions



Net capital gains are realized and unrealized, before taxes and deferrals of interest-related gains or losses. Not all products benefit directly in the form of dividends from capital gains or other earnings from equities and real estate.

Contribution to net investment income

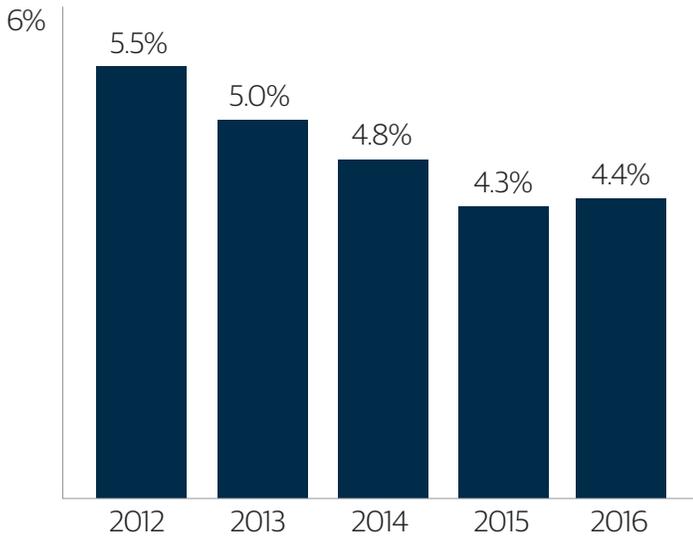
Equities contributed disproportionately, primarily driven by real estate and private equity.



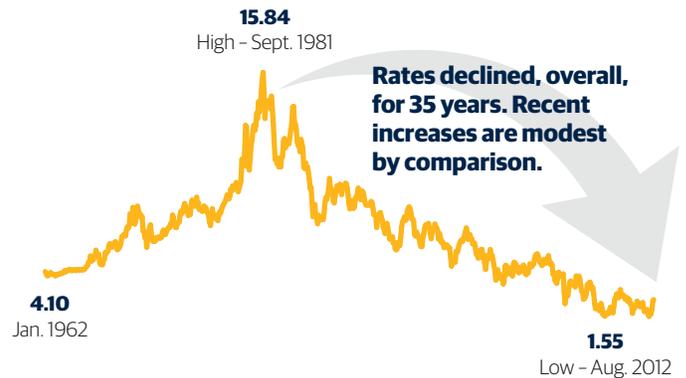
PORTFOLIO YIELD

Why the yield decrease?: The impact of low interest rates

Prolonged periods of low rates (like the present) invariably drive fixed-income yields lower. Nevertheless, to maintain our high investment quality standards, the General Account portfolio is about 83% lower-risk assets (p.5). Consequently, though superior performance from our other investments can help offset low bond yields, some decrease in the portfolio's yield is unavoidable.



10-year U.S. Treasury yields, 1962-present



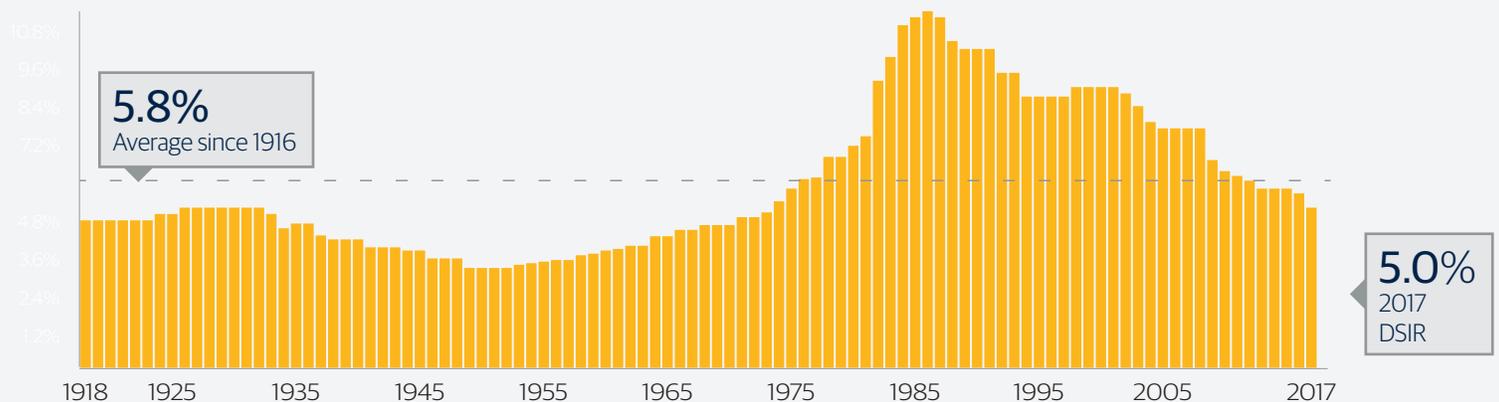
The Northwestern Mutual General Account yield reflects the impact of investment income and realized capital gains and losses for the period. It excludes income from policy loans and is net of investment expenses. The General Account yield is not the same as the various dividend scale interest rates credited to participating insurance policies or annuity contracts, nor is it a measure of a policy's internal rate of return.

DETERMINING DIVIDENDS – THE ROLE OF THE GENERAL ACCOUNT

The investment earnings generated by the general account portfolio – in addition to our level of claims paid and careful management of our expenses – contribute to our ability to pay dividends on products. The company's dividend scale interest rate (DSIR) for traditional permanent life insurance policies is declared annually by the Board of Trustees and is a reflection of what the company has earned on its investment portfolio in recent years. This rate is used for the determination of the interest component of a permanent life policy's dividend.

Northwestern Mutual's dividend scale interest rate (DSIR)

past 100 years



For years prior to 1982, this graph reflects the highest applicable dividend scale interest rate across all traditional permanent life insurance policies. After 1982, this graph reflects the dividend scale interest rate for unborrowed funds for most traditional permanent life insurance policies with direct recognition.

See page 15 for more information on determining dividends.



ESSENTIAL DIVERSIFIERS: REAL ESTATE AND PRIVATE EQUITY

Change is constant in global markets. This has made diversification – a proven technique for capitalizing on the “ups” while minimizing the impact of the “downs” – essential to building successful long-term portfolios like Northwestern Mutual’s General Account. This diversification is enhanced by our extensive, nationwide real estate operations and significant international private equity activities.

These are just a few examples of the large number of investments Northwestern Mutual makes each year.

REAL ESTATE

Northwestern Mutual is one of largest real estate investors in the United States. And size matters. Our team has the capital and in-house capabilities to select from the broadest range of investments. The result: diversification and strong performance.



Skye | Vista, CA



Pulse Millenia | Chula Vista, CA

Through a strong relationship with a development partner, Northwestern Mutual purchased two newly constructed San Diego-area luxury garden apartment communities. Skye – acquired while still under construction – is a 290-unit residential community situated on top of a hill with scenic views in Vista, CA. Pulse Millenia is a 373-unit apartment project located in a master-planned community in Chula Vista, CA. Both properties feature clubhouses and state-of-the-art amenities.

Not all investments made by Northwestern Mutual experience similar results. Some investments may result in losses. In addition, past investment performance by Northwestern Mutual is not necessarily indicative of future investment results. No investment or investment strategy can assure a profit or protect against a loss in a declining market. For more information about other Northwestern Mutual investments, see www.northwesternmutual.com.



701 Brickell Avenue | Miami, FL



1900 K Street | Washington, DC



The Newbry | Boston, MA

Northwestern Mutual made three loans totaling \$564 million on three prominent office buildings owned by TIAA (Teachers Insurance and Annuity Association). The properties have excellent downtown locations in strong office markets within three major East Coast cities. 701 Brickell in Miami, 1900 K Street in Washington, DC, and The Newbry in Boston contain a total of 1.6 million square feet, including 140,000 square feet of retail space.

2016 PRIVATE INVESTMENTS

Private equity is a natural fit for a life insurance company with long-dated liabilities and a high tolerance for illiquidity. These investments are often exclusive and relationship driven, so getting access to the most attractive opportunities is critical. That's where Northwestern Mutual's reputation as a respected, highly sought-after private equity business partner comes in. The result: diversification and superior risk-adjusted returns relative to public market alternatives.



In 2012, private equity firm Wind Point Partners approached Northwestern Mutual Capital about an opportunity to invest in Hilex Poly, the largest manufacturer of plastic retail bags. The company had previously struggled and had a very limited product portfolio facing some regulatory headwinds, so the investment was not without risk. But a decades-long relationship of trust with Wind Point, deep understanding of the business and conviction in Hilex's management team caused us to see a unique opportunity where others didn't. Multiple savvy acquisitions that substantially broadened the product portfolio and a focus on sustainability saw Hilex grow into a dominant market leader with a new name, Novolex. In 2016, Novolex was sold, generating an excellent return for our clients.



In 2012, Northwestern Mutual invested in Truven Health Analytics alongside lead investor Veritas Capital. Truven, previously a unit of Thomson Reuters, delivers customized data analytics solutions and research to governmental agencies, hospitals, health plan providers, clinicians, employers and other end users. During our investment period, Veritas successfully created a standalone business and grew Truven organically and through small acquisitions. In 2016, Truven was sold to a division of a large publicly traded firm, generating a notable profit for Northwestern Mutual's General Account investment portfolio.



INVESTMENT MANAGEMENT TEAM

As a mutual company, we think in years, not quarters. Our experienced investment team seeks long-term opportunities, not quick hits.



Ronald P. Joelson
Executive Vice
President & Chief
Investment Officer



Jeffrey J. Lueken
Senior Vice President –
Private Securities

NORTHWESTERN MUTUAL CAPITAL

- > A global investor
- > Private equity
- > Private investment-grade bonds
- > Private high-yield bonds and loans
- > Mezzanine debt



Lisa Cadotte
Vice President –
Investment Risk Management

INVESTMENT RISK MANAGEMENT

- > Investment risk management
- > Investment operations
- > Investment information
management and technology



Thomas D. Zale
Vice President –
Real Estate

NORTHWESTERN MUTUAL REAL ESTATE

- > Origination, underwriting and servicing
- > Eight regional field offices
- > Commercial mortgage loans
- > Equities across property types



John E. Bentley
Vice President –
Investment Strategy

INVESTMENT STRATEGY

- > Strategic asset allocation
- > Composite portfolio management
and reporting
- > Public equity sub-allocation
- > External manager evaluation
and oversight



Leslie Barbi
Senior Vice President –
Public Investments

PUBLIC INVESTMENTS

- > Active management
- > High-grade bonds
- > High-yield bonds

Overall asset allocation, investment strategy and portfolio management are executed by teams of investment professionals within Northwestern Mutual Investment Management Company, LLC (NMIMC), a wholly owned subsidiary of The Northwestern Mutual Life Insurance Company. Northwestern Mutual Capital is the marketing name for the private securities department of NMIMC. Northwestern Mutual Real Estate is the marketing name of the real estate department of NMIMC.

ABOUT NORTHWESTERN MUTUAL'S GENERAL ACCOUNT INVESTMENTS AND INSURANCE PRODUCTS

The vast majority of the company's managed assets back most of its life, disability income and portfolio income annuity liabilities. The investment strategies described in this booklet apply to the investment of those assets. A portion of managed assets back the remaining liabilities (primarily fixed deferred annuities, income plans and long-term care insurance), which have different investment exposures than described in this report. When purchasing the company's life insurance and annuity products, clients are not investing in the company's General Account portfolio but purchasing products backed by the financial strength of Northwestern Mutual. Long-term care insurance is issued by Northwestern Long Term Care Insurance Company, Milwaukee, WI, a subsidiary of Northwestern Mutual.

GENERAL ACCOUNT INVESTMENTS REPORTING CONSIDERATIONS

Northwestern Mutual publishes its Investment Report annually to provide information on the asset mix of its portfolio and the investment results generated during the previous calendar year. Certain types of investments have been grouped differently for this report than in Northwestern Mutual's Consolidated Financial Statements (CFS). The most significant of these differences as of December 31, 2016, are:

- Other investments of \$13.5 billion reported in the CFS include certain interests in subsidiaries and affiliates, joint ventures and partnerships. This report classifies these investments based on the character of the underlying assets, such as public bonds, private equities, real estate and public common stock.
- Mortgage loans of \$34.2 billion reported in the CFS include \$1.4 billion of loans made to real estate joint ventures in which the company is an equity investor. This report classifies these assets as real estate equity investments.
- Due and accrued investment income of \$1.9 billion is reported separately in the CFS. This report includes these amounts in their respective asset classes.

Northwestern Mutual's CFS utilizes the statutory method of accounting. Investment values under generally accepted accounting principles may differ materially from the figures presented in this report. The notes to the CFS provide further details as to the accounting and valuation methods applied to the reported investment values. PricewaterhouseCoopers LLP is the company's independent auditor.

A copy of Northwestern Mutual's 2016 Consolidated Financial Statement is available at www.northwesternmutual.com or by written request to: Northwestern Mutual, Corporate Communications, NO4, 720 E. Wisconsin Ave., Milwaukee, WI 53202.

IMPORTANT INFORMATION ABOUT DETERMINING DIVIDENDS

In regard to Northwestern Mutual's dividend payout and dividend scale interest rate (DSIR), comments in this document pertain generally to life insurance policy dividends. The DSIR is not the rate of return on a policy and is only one factor for determining the life insurance dividend. The majority of our life insurance dividend payment is a result of our industry-leading persistency, favorable mortality costs and diligent expense management. Decisions with respect to the determination and allocation of divisible surplus are left to the discretion and sound business judgment of the company's Board of Trustees. There is no guaranteed specific method or formula for the determination and allocation of divisible surplus. Accordingly, the company's approach is subject to change. Neither the existence nor the amount of a dividend is guaranteed on any policy in any given policy year. Some policies may not receive any dividends in a particular year or years even while other policies receive dividends. In its 2017 dividend scale resolution, the Board of Trustees has exercised its discretion to guarantee a minimum amount of dividends to be paid in 2017 to the policyholders as a group. If this guaranteed amount exceeds the aggregate amount of dividends actually paid to individual policyholders in 2017, that excess will be paid out in 2018 pursuant to the 2017 dividend scale resolution. The presence of a guaranteed minimum amount in the 2017 dividend scale resolution does not obligate Northwestern Mutual to declare a dividend in future years or to guarantee any portion of dividends that may be declared in future years.

160 YEARS OF STRENGTH AND STABILITY

The ratings reflect “the company’s leading positions and strong franchise in its core markets, with a focus on participating whole life insurance, excellent career agency-based distribution, strong underwriting skills, and its robust and resilient balance sheet.”

Moody’s Investors Service, January 2017

“The superior rating reflects Northwestern Mutual’s favorable level of risk-adjusted capitalization, exclusive career agency distribution system, strong liquidity and leading market position in participating whole life insurance.”

A.M. Best Company, May 2016

“Fitch considers Northwestern’s key competitive advantages to include its successful distribution system, large and stable block of traditional life insurance and expense advantage relative to peers.”

Fitch Ratings, May 2016

“We expect Northwestern Mutual Life Insurance Co. and its subsidiary, Northwestern Long Term Care Insurance Co., to maintain its extremely strong competitive position while maintaining extremely strong capital and exceptional liquidity.”

S&P Global Ratings, June 2016

Ratings are subject to change. Third-party ratings are a measure of the company’s relative financial strength and security but are not a reflection of the performance or stability of funds invested in a company’s separate accounts.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability insurance, annuities and life insurance with long-term care benefits) and its subsidiaries.