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North Growth US Equity

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Philip Lee | 20 Jun 07 | [Email Article to a Friend](#)

Management's focus on inexpensive stocks has yielded solid long-term results.

Morningstar Rating

★★★★★
 (as of 31 May 07)

Strategy

Manager Rory North is responsible for the fund's decision making but North Growth Management Ltd. uses a team approach. The managers use a bottom-up strategy to identify securities of companies with sustainable growth that are trading at a reasonable price. Companies in which management invests typically have solid balance sheets and have the ability to generate strong cash flow.

Management

Rory North is chief operating officer at North Growth Management Ltd. He is also the lead portfolio manager for the firm's funds. Prior to joining the firm in August 1998, he was a corporate finance analyst for two years at RBC Dominion Securities in Vancouver. Previously, he was an equity analyst at Daiwa Securities Inc. in Hong Kong covering Asian emerging market equities. He graduated from the University of British Columbia, majoring in finance. Rudy North is president and founder of North Growth Management Ltd. He is also one of the founders of Phillips, Hager & North Investment Management Ltd. He has specialized in the management of U.S. equity mandates since 1970. Other team members include Erica

Rudy North began managing this U.S. equity offering in October 1992 when he was at Phillips Hager & North, a reputable low-fee firm that he co-founded. When he started North Growth Management Ltd in 1998, the assets followed him and the fund was subsequently renamed North Growth U.S. Equity. Patient investors who were able to fork over \$150,000 (less for accredited investors and pursuant to provincial regulations) have been rewarded with strong returns. We think that management's focus on quality companies with attractive valuations can continue to work well over the long term.

The management team, now led by Rudy's son Rory North, invests with the growth-at-a-reasonable-price (GARP) philosophy that Rudy developed over his more than three decades in U.S. equities. They focus on steady growing companies that have a clean balance sheet and strong cash flows and that are trading at inexpensive multiples. This helped the fund avoid severe losses during the tech and telecom bubble.

After being heavily weighted in small- and mid-cap stocks earlier in the decade, management has repositioned the fund mainly in large-cap stocks. These cash-rich companies are in a good position to bolster shareholder value through share buybacks, dividends and accretive acquisitions. In addition to providing solid total returns, we think this strategy can smooth out the volatility of stock prices.

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An example is Cisco Systems ([CSCO/NASDAQ](#)), the

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fund's top holding at just under 10% of assets. While the company generates significant cash, it does not currently pay a dividend. Instead, Cisco's management has opted to make acquisitions. North is comfortable with this as long as the acquisitions continue to create value for shareholders.

The fund has performed extremely well over the past 14 years with an annualized return of 14.5%, which is tops among the 28 funds in the U.S. Equity category that have been around that long; its closest competitor is more than four percentage points behind. That return also trounces the S&P 500 Index (in Canadian dollars) by 4.7 percentage points. The fund's low management-expense ratio of 1.2% -- compared to 2.49% for the category median -- has given it an advantage over its peers.

Also key to the fund's success is management's ability to control losses. The fund has experienced losses only 15% of the time over all trailing one-year periods, with an average loss of 5.6%. This compares favourably to the median fund in the category, which lost money 28% of the time with an average loss of 11%.

Of Note

- The fund's all-cap mandate makes comparisons versus a pure peer group difficult. When compared against the combined U.S. Equity and U.S. Small/Mid Cap Equity categories, the fund's 10-year return ranks second among 59 peers.
- While the fund doesn't hedge its U.S. dollar exposure, its unitholders can shield themselves from currency fluctuations by also owning North Growth Currency Hedge Limited Partnership. The cost to hedge is roughly 50 basis points of the amount to be hedged. Also, they need to contribute about 2% of additional capital to meet margin requirements.
- As of April 30, 2007, the fund's top 15 holdings represented over 70% of its assets. Management will typically run a very concentrated portfolio. While this may increase volatility over the short term, we like that management is putting the fund's money in its best ideas.
- Management bears all operating, administrative and trading expenses by charging a flat fee of 1.2%. This is cheaper than 88% of the funds in the category.

Morningstar's analyst reports are designed to be one element in helping investors decide whether a particular mutual fund is right for them. However, as every investor's personal circumstances and portfolio needs differ, we do not recommend or endorse particular funds. For fund recommendations and portfolio planning, we recognize the value of an accredited professional financial advisor. For information on how Morningstar analyzes funds and assigns Morningstar Ratings, [click here](#).

Lau and Cynthia Yen.

Kudos

- The fund's 10-year risk-adjusted return is tops in the U.S. Equity category.

Question Marks

- Because the fund is offered by offering memorandum, it has far fewer reporting requirements compared to mutual funds offered by prospectus. Among other things, its holdings are available only to unitholders, which makes analysis more difficult.

About the Author



Philip Lee is a fund analyst with Morningstar Canada. Prior to joining Morningstar, he was an analyst at a pension trust fund and performance analyst at the asset management arm of a leading Canadian institution. Philip earned a Bachelor of Arts (honours) degree specializing in Economics from the University of Toronto. He is a CFA charterholder and holds the FRM designation.

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