

**APRIL 2015**

**MANAGEMENT'S MONTHLY  
REPORT ON FUND  
PERFORMANCE**

May 14, 2015

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

### Table of Contents

Fund Performance Update .....	2
U.S. Equities .....	2
Canadian Equity Fund .....	2
First Quarter Earnings .....	2
Our View .....	3
North Growth U.S. Equity Fund .....	4
Short Term Rates of Return .....	4
Annualized Rates of Return .....	4
North Growth Canadian Equity Fund .....	5
Short Term Rates of Return .....	5
Annualized Rates of Return .....	5
North Growth Canadian Money Market Fund .....	6
Annualized Rates of Return .....	6
Equity Fund Holdings and Composition .....	7
U.S. Equity Fund – Top 10 Holdings .....	7
U.S. Equity Fund – Sector Mix .....	7
Canadian Equity Fund – Top 10 Holdings .....	8
Canadian Equity Fund – Sector Mix .....	8
Investing With Us .....	9
Investing With North Growth Management: .....	9
Conducting Transactions .....	9
Where to Find NGM Fund Prices .....	9

# Fund Performance Update

## U.S. Equities

U.S. equities delivered mixed performance during April. While the S&P 500 and NASDAQ Composite Indices posted marginal gains of 1.0% and 0.9% respectively, the smaller capitalization indices came under selling pressure at the end of the month after a strong quarter of appreciation this year. The S&P 400 MidCap Index fell 1.5%, and the S&P 600 SmallCap was hit even harder, losing 2.3% for the month. A large part of the sell-off was concentrated around the momentum, high-flying names such as Yelp as revenues and/or earnings results failed to live up to investors' lofty expectations. By contrast, many of the large cap technology bellwethers including Microsoft and Apple reported solid, better-than-expected quarterly results, contributing to the outperformance of the S&P 500 and NASDAQ Composite in April.

The North Growth U.S. Equity Fund declined 0.3% last month, lagging behind the broad S&P 500 Index and the NASDAQ, but comparing favourably to the small cap indices we track. As the Canadian currency recovered some of its weakness from the first quarter during April, the Fund declined 5.1% in Canadian dollars for the month versus the S&P 500 which was down 3.8% in Canadian dollars.

## Canadian Equity Fund

The North Growth Canadian Equity Fund declined 0.5% in April whereas the S&P/TSX Composite Index advanced 2.4% for the month. The heavily weighted financial and energy sectors drove the performance of the S&P/TSX Composite. Having no exposure to these sectors is the primary cause of the recent underperformance of the Canadian Fund.

## First Quarter Earnings

The majority of corporate earnings reports for the January-to-March period has been much better than expected. Similar to 2014, harsh winter weather near the beginning of the year held back U.S. economic growth. The decline in fuel prices and strong U.S. currency also had a negative impact on capital spending and business investment during the first quarter. Accordingly, Wall Street analysts had been lowering their earnings estimates for the quarter by a significant margin since the beginning of the year; in aggregate, from December 31st to March 31st, analysts reduced quarterly earnings estimates for the S&P 500 companies by 8.2%.

At the end of March, earnings for the first quarter were expected to decline 4.7% year-over-year. According to FactSet, earnings are now on track to increase 0.1%, with eight sectors of the S&P 500 reporting higher growth rates compared to March 31st due to upside earnings surprises.

As of May 8th, 447 companies of the S&P 500 Index have reported earnings for the first quarter of 2015. With around 90% of the results in, 71% of the reporting companies have exceeded analysts' earnings forecasts while 45% have beaten revenue estimates.

We have been pleased with the results of virtually all the companies in the portfolio to date. So far, 85% of the U.S. Fund's holdings have reported, and profits on a weighted-average basis in the latest quarter increased 18.4% over a year ago against estimates of 8.0% growth.

A noteworthy contributor to earnings growth for the Fund this quarter is the large cap biotechnology company, Gilead Sciences (GILD). A leader in the biopharmaceutical industry with a long term track record of success and established medicines treating HIV/AIDS, Gilead completed the largest drug launch in U.S. history last year with Sovaldi for the cure of chronic hepatitis C virus (HCV) infection. In 2014, Gilead reported earnings per share or EPS that nearly quadrupled the previous year, and over the past five years, the company has grown earnings at an average annual rate of 37.2%.

In the latest quarter, Gilead reported EPS of \$2.94 which was 30% above the average consensus estimate of \$2.26. Year-over-year, Gilead's EPS increased 99% driven by total product sales growth of 55%. At the end of 2014, the company launched a new hep C combination medicine, Harvoni, which combines Sovaldi with the drug ledipasvir and does not require any injectable drugs. Harvoni, which boasts cure rates of 94% to 99%, is off to a great start as sales of the medicine came in at \$3.6 billion for the quarter. Analysts forecast GILD earnings in 2015 to increase 31% over a year ago, yet the stock trades at only 12 times trailing 12-month earnings and 10 times current year estimates. Adjusted for the company's \$14.5 billion cash balance, Gilead is valued at a trailing price/earnings (P/E) multiple of 11 and a current forward P/E multiple of 9—clearly an attractive valuation relative to its growth.

Although many biotech stocks are trading at exceptionally high valuations with the market paying up for promising pipelines of experimental drugs, Gilead is a notable exception. In addition to an established product portfolio with leading market share in viral and liver diseases, Gilead has a rich pipeline with new drugs for indications in hematology/oncology and cardiovascular scheduled for launch in the near term, of which its equity valuation does not seem to take into account.

### **Our View**

The North Growth U.S. Equity Fund remains fully invested and in general, we are content with the holdings in the portfolio. We continue to actively seek investments that meet our “growth at a reasonable price” philosophy and fine-tune the Fund when presented with relative opportunities.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended April 30, 2015

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	<b>-5.06</b>	<b>0.15</b>	<b>14.51</b>	<b>7.52</b>
S&P 500 in \$CDN	-3.84	-0.27	11.74	5.99
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>-0.32</b>	<b>5.52</b>	<b>6.98</b>	<b>3.40</b>
S&P 500 \$U.S.	0.96	5.07	4.40	1.92
S&P 400 MidCap \$U.S.	-1.49	4.92	6.53	3.74
S&P 600 SmallCap \$U.S.	-2.33	5.22	4.16	1.55
NASDAQ Composite \$U.S.	0.88	6.98	7.46	4.77

## Annualized Rates of Return (%) for the Period Ended April 30, 2015

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	<b>21.62</b>	<b>22.13</b>	<b>16.40</b>	<b>8.41</b>	<b>9.57</b>	<b>12.52</b>	<b>12.90</b>
S&P 500 \$CDN	24.36	24.77	18.33	7.86	3.01	8.65	9.50
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>10.49</b>	<b>14.26</b>	<b>12.46</b>	<b>8.87</b>	<b>11.07</b>	<b>13.18</b>	<b>13.05</b>
S&P 500 \$U.S.	12.98	16.73	14.33	8.32	4.43	9.29	9.64
S&P 400 MidCap \$U.S.	12.28	16.53	14.41	10.59	9.31	12.51	12.59
S&P 600 SmallCap \$U.S.	9.24	16.87	14.40	10.05	9.70	11.33	11.71
NASDAQ Composite \$U.S.	21.68	19.16	16.41	11.12	2.62	10.11	10.00*

Source: Bloomberg "Total Return Analysis" as of May 1, 2015.

\*These returns are a simple price appreciation because total return data is not available on Bloomberg.

Unit Price: \$ 44.13 CDN  
\$ 36.58 USD

Total Assets in Fund \$ 445.1 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended April 30, 2015

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>-0.49</b>	<b>3.38</b>	<b>7.97</b>	<b>-0.63</b>
S&P / TSX \$CDN	2.43	4.76	5.72	5.02

## Annualized Rates of Return (%) for the Period Ended April 30, 2015

	1 Year	2 Years	3 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	<b>3.04</b>	<b>21.83</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
S&P / TSX \$CDN	6.93	13.89	N/A	N/A	N/A

*\*The Canadian Equity Fund became a reporting issuer on June 15, 2012. It is not permitted to publish performance data prior to the date it became a reporting issuer.*

Unit Price: \$ 20.02 CDN

Total Assets in Fund \$ 42.2 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended April 30, 2015

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	<b>0.61</b>	<b>0.84</b>	<b>0.85</b>	<b>0.80</b>
30 Day Treasury Bill	N/A	0.83	0.90	0.85

*\* The **Current Yield** for the Money Market Fund is the average of the annualized daily yield for the most recent seven day period. This measure is no longer available for the 30 day T-Bill Index.*

We take a very simple approach to managing the North Growth Canadian Money Market Fund. We invest in a portfolio of high quality short term bonds. The average maturity of the portfolio is most often less than 30 days. Historically the Fund has generated very competitive yields with this simple approach because the management fee is, and always has been, 0.25%. In today's low rate environment most other money market funds in Canada have cut their management fees and extended their maturities in order to improve yields, as a result the North Growth Canadian Money Market Fund's yields are now below the industry average.

We manage the portfolio to ensure high liquidity and have no intention to extend maturities in order to chase a few basis points and we do not have any room to reduce our management fees because we already take a loss on the product. We still believe our money market fund has superior liquidity characteristics due to its very low average maturity but our current yield is 0.61% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

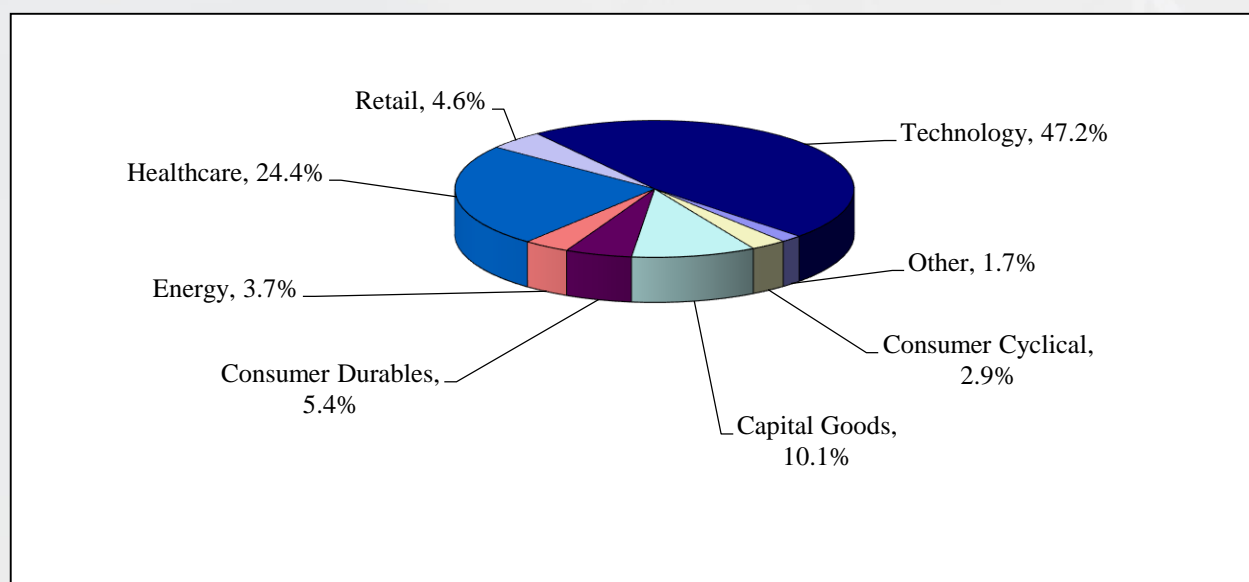
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at April 30, 2015

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	9.91
2.	Apple Inc.	9.24
3.	Intel Corporation	4.83
4.	Anthem Inc.	4.60
5.	St. Jude Medical Inc.	4.49
6.	Microsoft Corporation	4.45
7.	Citrix Systems Inc.	3.85
8.	First Solar Inc.	3.72
9.	Gilead Sciences Inc.	3.40
10.	General Electric Company	3.29
Top 10		51.78
Total Equities		98.26
Cash		1.74
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at April 30, 2015

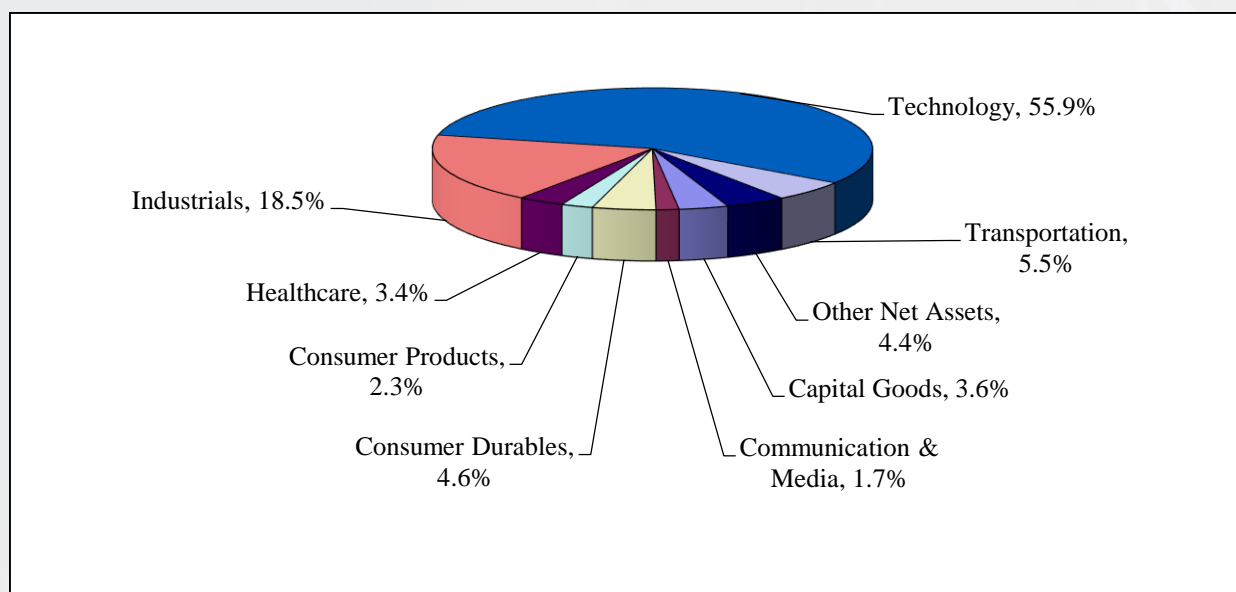




## Canadian Equity Fund – Top 10 Holdings as at April 30, 2015

Ranking	Security	% of Net Assets
1.	Sandvine Corporation	10.56
2.	Avigilon Corporation	7.36
3.	COM DEV International Ltd.	5.98
4.	Open Text Corporation	5.92
5.	Celestica Inc.	5.62
6.	Westjet Airlines Ltd.	5.51
7.	Ballard Power Systems Inc.	4.81
8.	Martinrea International Inc.	4.81
9.	Dorel Industries, Inc. Class B	4.64
10.	CAE Inc.	4.60
Top 10		59.81
Total Equities		95.58
Cash		4.42
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at April 30, 2015



# Investing With Us

## Investing With North Growth Management:

North Growth Management is a focused firm. We are Canada's U.S. Equity Specialist. Our objective is consistent, superior, long term returns on our equity funds based on our "growth at a reasonable price" investment philosophy.

## Conducting Transactions

The cut-off time for same-day transactions is 3 p.m. Eastern time or 12 p.m.(noon) Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to RBC Investor Services Trust. For security reasons, instructions can only be accepted by mail or by fax to:

North Growth Management Ltd.  
Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

Fax: 604-688-5402

## Where to Find NGM Fund Prices

Please visit [www.northgrowth.com](http://www.northgrowth.com) to view the Fund's daily prices or to be added to our e-mail list to receive daily notification of the Fund's prices. Alternatively, the Globe & Mail reports prices on [www.globofund.com](http://www.globofund.com) by at the following links:

North Growth U.S. Equity Fund

<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=52033&cid=4008>

North Growth Canadian Equity Fund

<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=57466&cid=4008>

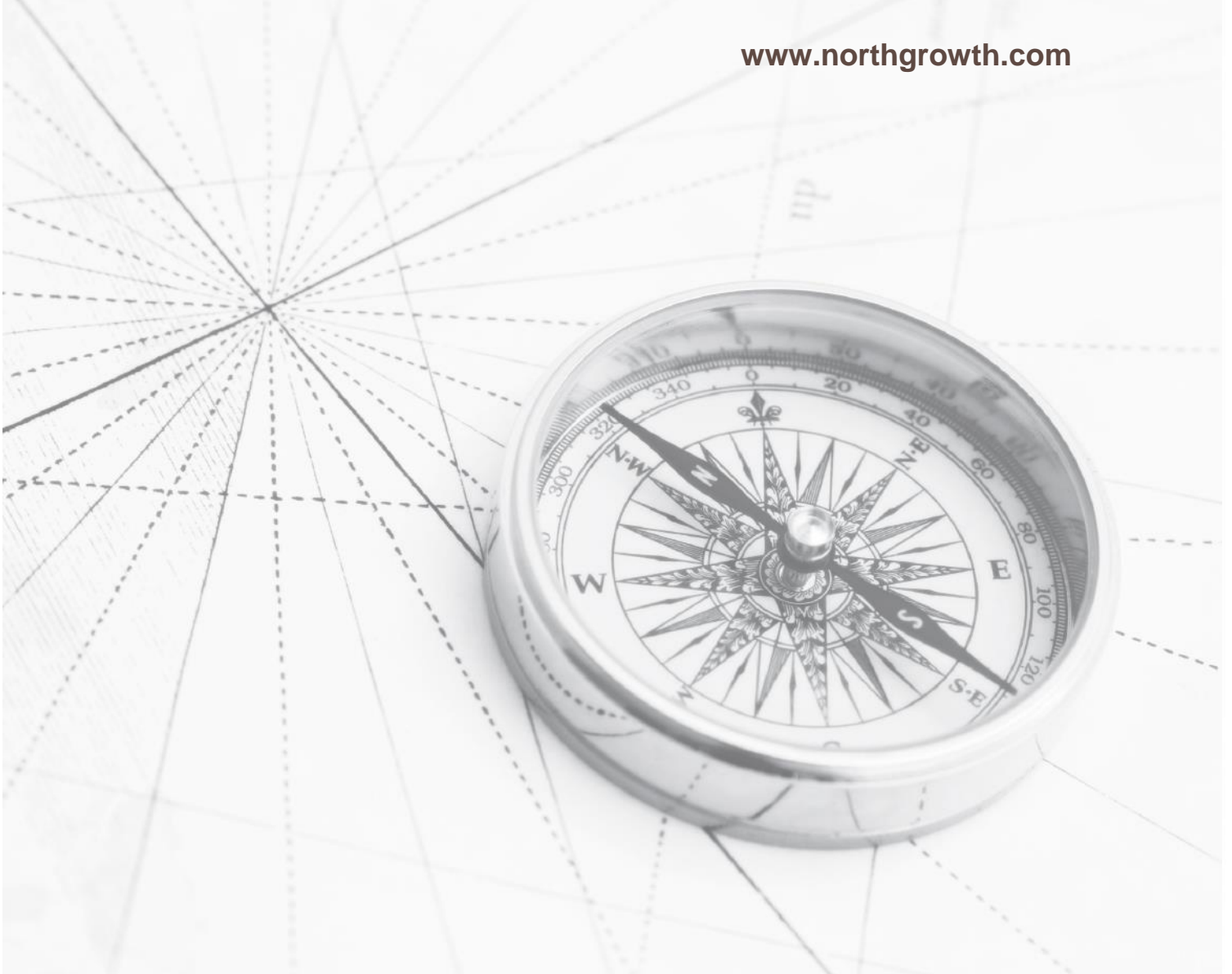
North Growth Canadian Money Market Fund

<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



This page has intentionally been left blank.

[www.northgrowth.com](http://www.northgrowth.com)



Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

T: 604 688 5440  
F: 604 688 5402  
[info@northgrowth.com](mailto:info@northgrowth.com)