

DECEMBER 2014

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

January 19, 2015

MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

North Growth Funds

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Fund Performance Update

U.S. Equity Fund

Equity markets were quite volatile in December. Market commentators offered conflicting rationales for the declining markets during the first two weeks of the month. Was the culprit falling oil prices indicating a weakening global economy, or was the mounting evidence of a strengthening U.S. economic expansion going to spur the Federal Reserve to raise interest rates sooner than expected? Whatever the reason, the release of the largely unchanged and benign Federal Open Market Committee (FOMC) statement on December 17th and a pause in the decline of oil prices generated a strong market rally leading to the S&P 500 Index reaching a new high on December 29th. The rally faded on light volume during the last few days of the year, with the S&P 500 Index ending down 0.3% for the month and up 13.7% for the year. The other major indices followed a similar trading pattern with varying amplitudes. The S&P 600 SmallCap Index played catch up with gains of 2.9% for the month, ending the year up 5.8%. In similar fashion, the S&P 400 MidCap Index gained 0.8% ending up 9.8% for the year. The technology heavy NASDAQ Composite Index posted the largest decline for the month at -1.1%, but the strongest gains for the year at 14.8%. Can anyone see a pattern?

For the month and year the North Growth U.S. Equity Fund was in the middle of the pack versus the indices we follow posting a 0.7% decline during December and an annual return of 11.6%. Although the Fund lagged the S&P 500 by 2.1% for the year, these are still solid results in what proved to be a difficult year for most managers. The decline in the Canadian dollar boosted the U.S. Fund's annual return in Canadian dollars to 21.7%.

Canadian Equity Fund

In Canada, the rationale for the market falling in sympathy with tumbling commodity prices seems to us more logical than in the U.S. Accordingly, in relation to the move in the U.S. markets, we considered the decline of approximately 8% for the S&P/TSX Composite during the first two weeks of December to be reasonable. However defying our logic, following the FOMC statement but with no recovery in commodity prices, the S&P/TSX Composite rallied even more strongly than its U.S. counterparts during the last half of December, ending the month down only 0.4% to finish the year up 10.6%.

The North Growth Canadian Equity Fund finished the year strongly, gaining 5.6% for the month and 19.4% for the year. While the returns for the Canadian Fund were by no means linear throughout the year, we were pleased that it re-attained its highs, first reached in March, by the end of the year. With no direct exposure to financials or commodities, we believe the Canadian Fund provides interesting diversification from mainstream Canadian equity portfolios.

Our Long Term Thoughts on Oil

In a free market, pricing is determined by supply and demand. When demand grows faster than supply, prices rise. Generally demand decreases as prices rise, although if there is no alternative product available, as is the case with oil, demand tends to be less impacted by changes in pricing. Over the past thirty years or so, the global economy as measured by Real Global GDP has grown on average at somewhere around 3.3% per annum. Over the same period average annual global oil

demand growth was approximately 2%. Over the shorter term oil demand remains highly correlated to global economic growth.

Similar to all commodities, oil extraction is capital intensive. Capital investment is necessary to grow the supply of a commodity. Pricing of the commodity is probably the most important variable in determining the return on capital from investments in commodity production. When prices are high the potential to generate attractive returns on capital return is high, capital flows in and eventually production grows. When prices are low, returns on capital are low, capital investment decreases and production growth slows. If investment falls to the point that capital stock is being depleted, production will ultimately decrease.

At the turn of the century oil was trading at around \$20 a barrel and prices had been low for almost two decades. The prolonged period of low oil prices discouraged capital investment in the oil sector, slowing production growth. Meanwhile, global economic growth continued. We reached the point where oil markets were undersupplied and global demand was growing faster than supply could grow. In 2002, oil prices began to rise rapidly, hitting \$140 a barrel in 2008 and remained elevated up until last summer.

Spurred by rising oil prices, capital investment began to flow into the industry but it took a few years to rebuild the depleted production infrastructure and newer sources of oil were complicated, taking years to bring on stream. The slow supply response to higher prices kept the oil market tight and prices high, generating an extended capital investment cycle with trillions of dollars of investment. This unprecedented level of capital investment eventually lead to oil supply growth accelerating to where we are today, with an oversupply of oil and oil supply growth higher than oil demand growth.

U.S. production history is a good example. In 1985 U.S. oil production was approximately 9 million barrels a day and continued to decline steadily, hitting a low of below 5 million a day late in 2005. Production stabilized at this level growing only modestly for the next six years. It wasn't until 2011 that growth really accelerated and over the past three years production has skyrocketed to 9.2 million barrels a day – the highest level in over 30 years! U.S. oil production is getting the most attention lately but oil sector investment has not been limited to U.S. shale production.

Maybe we have already seen the bottom in oil prices, maybe not, but without a major and long lasting supply disruption, it seems that long term expectations for oil prices remain too high. Up until late summer 2014, West Texas Intermediate crude prices had been relatively stable around the U.S.\$100/barrel level for a few years and most energy analysts were using these levels in their models to calculate the net asset values commonly used to value the companies they follow. At December 31, 2014, with oil prices down around 50%, on a total return basis the S&P/TSX Composite Energy Sector Index was still up approximately 8.1% over the past 2 years and down only 4.8% last year. In our opinion, energy sector valuations do not appear to reflect a significant downward revision to long term oil price expectations.

In line with our long term investment approach, we do not anticipate adding any direct exposure to the energy sector in the near term. Some of our holdings do have some exposure to capital spending in the oil sector and we expect the growth of these business units to be negatively impacted. However, we view the positive impact of lower oil prices on the growth outlook for our portfolio and the global economy will more than offset any negatives stemming from reduced capital spending in the oil sector.

North Growth U.S. Equity Fund

Short Term Rates of Return (%) for the Period Ended December 31, 2014

	1 Month	3 Months	6 Months	YTD
NGM U.S. Equity Fund in \$CDN	0.73	5.68	10.29	21.68
S&P 500 in \$CDN	1.15	8.69	15.38	24.00
NGM U.S. Equity Fund \$U.S.	-0.67	2.03	1.44	11.56
S&P 500 \$U.S.	-0.25	4.93	6.12	13.69
S&P 400 MidCap \$U.S.	0.80	6.35	2.11	9.77
S&P 600 SmallCap \$U.S.	2.86	9.85	2.46	5.76
NASDAQ Composite \$U.S.	-1.08	5.75	8.12	14.81

Annualized Rates of Return (%) for the Period Ended December 31, 2014

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
NGM U.S. Equity Fund \$CDN	21.68	23.19	16.24	7.85	10.36	12.45	12.74
S&P 500 \$CDN	24.00	25.82	17.76	7.29	2.73	8.82	9.36
NGM U.S. Equity Fund \$U.S.	11.56	17.90	13.96	8.24	11.97	13.51	13.09
S&P 500 \$U.S.	13.69	20.41	15.45	7.67	4.24	9.85	9.70
S&P 400 MidCap \$U.S.	9.77	19.99	16.54	9.70	9.65	12.86	12.61
S&P 600 SmallCap \$U.S.	5.76	20.24	17.27	9.02	9.88	11.63	11.82
NASDAQ Composite \$U.S.	14.81	23.69	17.28	9.26	1.95	9.64*	9.94*

Source: Bloomberg "Total Return Analysis" as of Jan 2, 2015.

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

Unit Price: \$ 41.04 CDN
\$ 35.38 USD

Total Assets in Fund \$ 417.7 Million CDN

North Growth Canadian Equity Fund

Short Term Rates of Return (%) for the Period Ended December 31, 2014

	1 Month	3 Months	6 Months	YTD
NGM Canadian Equity Fund	5.55	8.62	2.28	19.35
S&P / TSX \$CDN	-0.39	-1.41	-2.00	10.61

Annualized Rates of Return (%) for the Period Ended September 30, 2014

	1 Year	2 Years	3 Years	5 Years	10 Years
NGM Canadian Equity Fund	19.35	31.23	N/A	N/A	N/A
S&P / TSX \$CDN	10.61	11.80	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: \$ 20.15 CDN

Total Assets in Fund \$ 42.3 Million CDN

North Growth Canadian Money Market Fund

Annualized Rates of Return (%) for the Period Ended December 31, 2014

	*Current Yield	1 Year	3 Years	5 Years
NGM Canadian Money Market Fund	0.92	0.88	0.87	0.76
30 Day Treasury Bill	N/A	0.91	0.91	0.82

** 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 0.92% 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 – Holdings as at December 31, 2014

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	9.80
2.	Apple Inc.	8.81
3.	Intel Corporation	5.51
4.	Microsoft Corporation	4.36
5.	St. June Medical Inc.	4.27
6.	Anthem Inc.	4.24
7.	Citrix Systems Inc.	3.75
8.	Zimmer Holdings Inc.	3.46
9.	Gilead Sciences Inc.	3.27
10.	Electronic Arts Inc.	3.05
11.	Cerner Corporation	3.02
12.	Texas Instruments Inc.	3.01
13.	Ethan Allen Interiors Inc.	2.86
14.	First Solar Inc.	2.85
15.	Amgen Inc.	2.69
16.	Rite Aid Corporation	2.69
17.	Pfizer Inc.	2.66
18.	Qualcomm Inc.	2.65
19.	General Electric Company	2.59
20.	Precision Castparts Corp.	2.56
21.	Pier 1 Imports Inc.	2.33
22.	Herman Miller Inc.	2.33
23.	Varian Medical Systems Inc.	2.15
24.	DSP Group Inc.	1.95
25.	Applied Materials Inc.	1.79
26.	Gap Inc.	1.46
27.	American Eagle Outfitters Inc.	1.39
28.	Jacobs Engineering Group Inc.	1.37
29.	Itron Inc.	1.31
30.	Johnson Controls Inc.	1.21
31.	Mohawk Industries Inc.	1.03
32.	Bristol-Myers Squibb Inc.	0.91
33.	Endocyte Inc.	0.16
Total Equities		97.49
Cash		2.51
Total Assets		100.00

Canadian Equity Fund –Holdings as at December 31, 2014

Ranking	Security	% of Net Assets
1.	Sandvine Corporation	9.72
2.	WestJet Airlines Ltd.	6.71
3.	Open Text Corporation	6.55
4.	Bombardier Inc., Class B	6.48
5.	Dorel Industries Inc., Class B	5.22
6.	Celestica Inc.	5.19
7.	Avigilon Corporation	5.17
8.	COM DEV International Ltd.	4.81
9.	CAE Inc.	4.62
10.	Ballard Power Systems Inc.	4.23
11.	ATS Automation Tooling Systems Inc.	4.19
12.	Martinrea International Inc.	4.13
13.	EXFO Inc.	3.94
14.	Jean Coutu Group (PJC) Inc., Class A	3.81
15.	MacDonald Dettwiler and Associates Ltd.	3.74
16.	GSI Group Inc.	3.56
17.	Sierra Wireless Inc.	3.11
18.	Heroux –Devtek Inc.	2.81
19.	Mitel Networks Corp.	2.46
20.	Stantec Inc.	2.41
21.	Valeant Pharmaceuticals International, Inc.	2.08
22.	TELUS Corporation	1.68
23.	IMRIS Inc.	1.25
24.	Oncolytics Biotech Inc.	0.22
Total Equities		98.09
Cash		1.91
Total Assets		100.00

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 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 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>

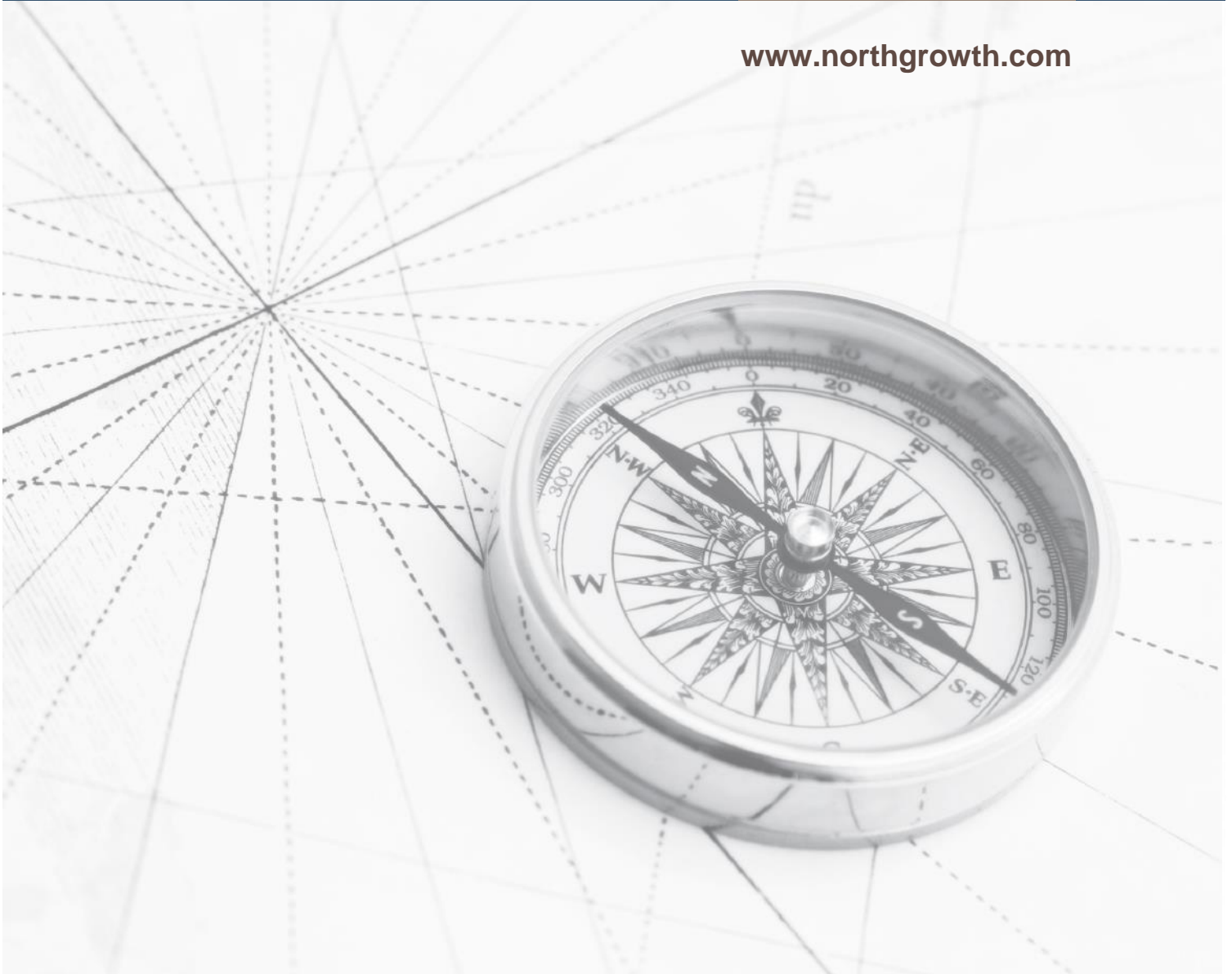


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