

**FEBRUARY 2017**

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

March 14, 2017

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

## U.S. Equity Fund

U.S. equities continued to rally in February with the various stock market indices reaching record highs throughout the month. The S&P 500 Index gained 4.0%, while the other indices we track regularly—the S&P 400 MidCap, S&P 600 SmallCap and NASDAQ Composite—increased 2.6%, 1.6% and 3.9% respectively. The North Growth U.S. Equity Fund appreciated 4.0% last month, performing in line with the S&P 500 and slightly better than the other mentioned indices. Due to a weakening Canadian dollar against its U.S. counterpart in February, both the Fund and the S&P 500 gained 6.1% in Canadian dollars.

## Canadian Equity Fund

The North Growth Canadian Equity Fund continued its streak of outperformance since the beginning of the year, appreciating 1.8% in February against the S&P/TSX Composite Index which edged up 0.2% last month.

## No material change to our recent views

As of March 2<sup>nd</sup>, 98% of the companies in the S&P 500 Index have reported results for the final quarter of 2016. According to FactSet, the blended earnings growth rate year-over-year for the S&P 500 during the fourth quarter is 4.9%, with 65% of the reporting companies having beat analysts' earnings forecasts and 53% exceeding revenue estimates. Generally, investors have cheered the quarterly reports as this most recent reporting period marks the first time the index has demonstrated two consecutive quarters of year-over-year earnings growth since the fourth quarter of 2014 and first quarter of 2015.

As the current bull market in stocks nears its eighth anniversary, the second-longest on record behind the one in the 1990s, stock market volume has been lagging. More concerning is that equity valuations are at the high end of historical averages. The S&P 500 currently trades at 18 times 2017 earnings estimates—above the 5-year average forward price/earnings (P/E) ratio of 15, the 10-year average ratio of 14 and the average multiple since 1937 of around 15. Since the start of 2017, the price of the S&P 500 Index has increased by 7% while the forward 12-month earnings forecast has increased by less than 1%. All told, U.S. equities have become more expensive.

We are pleased that our portfolio holdings continue to grow faster than the market. With 90% of the portfolio's holdings having reported, profits on a weighted-average basis in the latest quarter increased 17% over a year ago against estimates of 11% growth. The North Growth U.S. Equity Fund is currently trading at a below-market multiple of 16 times forward 12-month earnings with a superior profit growth profile.

Stronger corporate earnings results have taken place against the backdrop of a continually strengthening U.S. economy. The continued positive economic developments of late, particularly on the labour front, and rise in inflation toward the Fed's long-run target of 2%, support the virtual certainty that the U.S. Federal Reserve will raise the target range for the federal funds rate further by  $\frac{1}{4}\%$  to  $\frac{3}{4}\%$  to 1% following its upcoming March 14<sup>th</sup> - 15<sup>th</sup> meeting. It now also seems very likely that the Fed will raise rates at least three times this year.

As stock valuations continue creeping up, the U.S. market overall offers fewer opportunities of high caliber companies with attractive growth prospects trading at compelling valuations. The unprecedented level of uncertainty and risks associated with U.S. policy which we have highlighted in the previous monthly reports has not diminished and is not being factored into the increasingly rich equity valuations.

In line with our tempered outlook for U.S. equities, we continue to reduce the average size of our portfolio holdings, and the immediate impact of these actions has increased the U.S. Fund's cash balances. Ultimately, we continue to focus on the analysis of individual stocks and look to add new holdings to the portfolio as we apply our "growth at a reasonable price" investment philosophy diligently.

### **Lower, simpler fees**

You may recall that as of January 1, 2016 we began to apply a 10% fund level fee rebate for our non-prospectus qualified North Growth US Equity Fund and series N of the North Growth Canadian Equity Fund. This Fund level rebate effectively reduced the 1.2% management fee to 1.08%.

Effective April 1, 2017, we will simplify and lower our fees again by eliminating the fund level rebate and reducing the all-in-management fee for these non-prospectus qualified funds from 1.2% to 1%.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended February 28, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	6.11	7.05	6.72	5.08
S&P 500 in \$CDN	6.12	6.85	11.40	4.79
<b>NGM U.S. Equity Fund \$U.S.</b>	3.96	8.24	5.40	6.23
S&P 500 \$U.S.	3.97	8.04	10.01	5.94
S&P 400 MidCap \$U.S.	2.62	6.63	11.37	4.34
S&P 600 SmallCap \$U.S.	1.59	4.60	13.18	1.19
NASDAQ Composite \$U.S.	3.91	9.73	12.42	8.43

## Annualized Rates of Return (%) for the Period Ended February 28, 2017

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	18.23	14.48	17.71	8.85	9.18	11.06	12.81
S&P 500 \$CDN	22.67	17.54	20.92	8.99	6.02	7.46	9.93
<b>NGM U.S. Equity Fund \$U.S.</b>	20.45	7.75	10.98	7.48	10.56	11.23	12.51
S&P 500 \$U.S.	24.98	10.63	14.01	7.62	7.35	7.62	9.63
S&P 400 MidCap \$U.S.	31.73	9.64	13.83	9.15	10.07	11.37	12.39
S&P 600 SmallCap \$U.S.	34.97	9.75	14.93	9.00	10.32	10.39	11.75
NASDAQ Composite \$U.S.	29.47	12.00	15.99	10.46	9.59	8.70	9.95*

Source: Bloomberg "Total Return Analysis" as of Mar. 1, 2017.

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

Unit Price: \$ 49.62 CDN  
\$ 37.36 USD

Total Assets in Fund \$ 503.3 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended February 28, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	1.76	6.42	8.13	7.41
S&P / TSX \$CDN	0.21	2.74	6.93	1.06

## Annualized Rates of Return (%) for the Period Ended February 28, 2017

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	18.07	-2.87	1.61	10.37	N/A	N/A
S&P / TSX \$CDN	23.24	3.59	5.78	7.86	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: \$ 18.27 CDN

Total Assets in Fund \$ 38.9 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended February 28, 2017

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.46	0.51	0.64	0.72
30 Day Treasury Bill	N/A	0.48	0.62	0.75

*\* 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 0.46% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

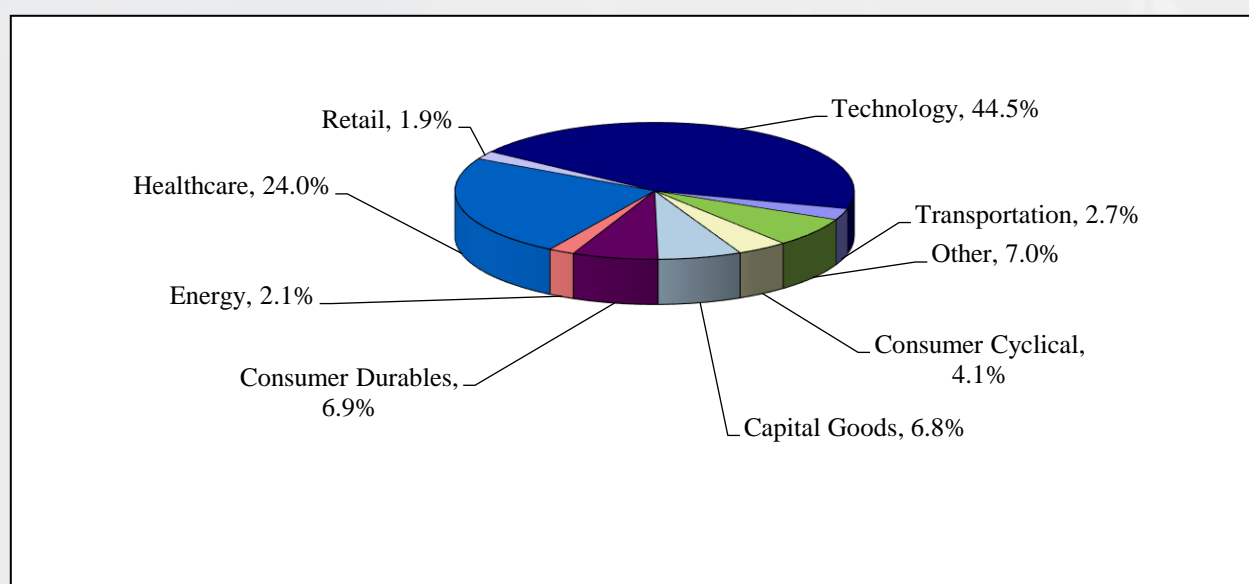
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at February 28, 2017

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	8.31
2.	Apple Inc.	7.31
3.	Applied Materials Inc.	4.88
4.	Intel Corporation	4.79
5.	American Eagle Outfitters Inc.	4.08
6.	Cerner Corporation	4.00
7.	Zimmer Biomet Holdings Inc.	3.96
8.	Microsoft Corporation	3.94
9.	Amgen Inc.	3.31
10.	Mohawk Industries Inc.	3.22
Top 10		47.80
Total Equities		93.00
Cash		7.00
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at February 28, 2017

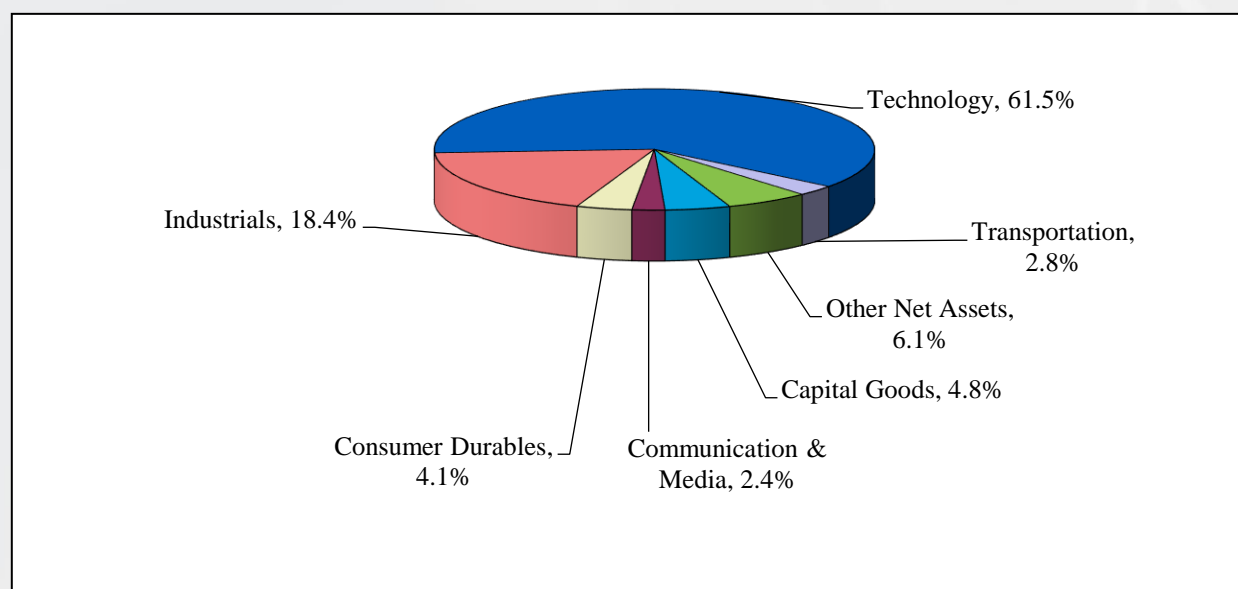




## Canadian Equity Fund – Top 10 Holdings as at February 28, 2017

Ranking	Security	% of Net Assets
1.	Sierra Wireless Inc.	8.77
2.	Sandvine Corporation	7.83
3.	EXFO Inc.	5.87
4.	Avigilon Corporation	5.78
5.	Open Text Corporation	5.72
6.	CAE Inc.	5.63
7.	Ballard Power Systems Inc.	5.57
8.	Celestica Inc.	5.47
9.	Heroux-Devtek Inc.	5.08
10.	ATS Automation Tooling Systems Inc.	4.78
Top 10		60.50
Total Equities		93.88
Cash		6.12
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at February 28, 2017



# 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

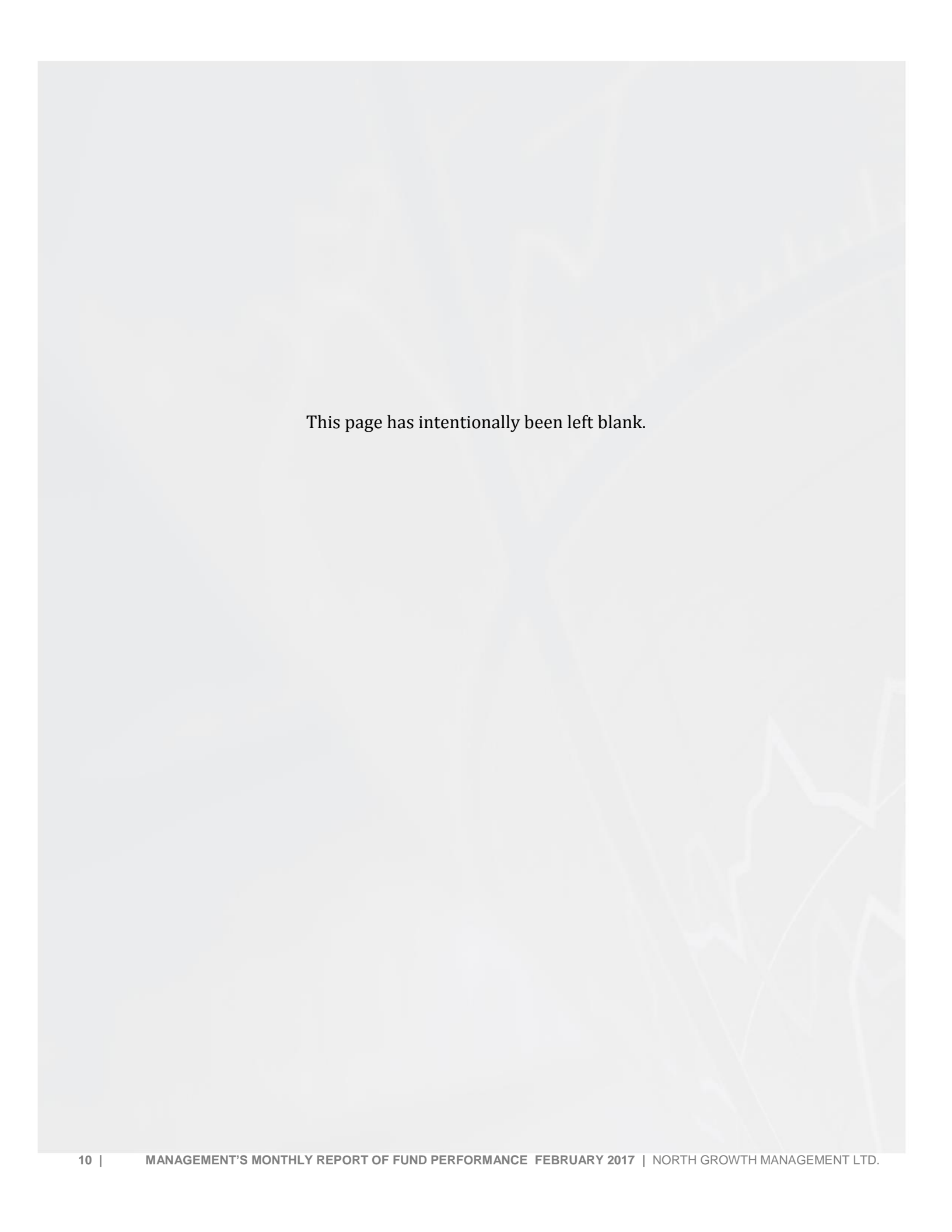
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=52033&cid=4008>

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

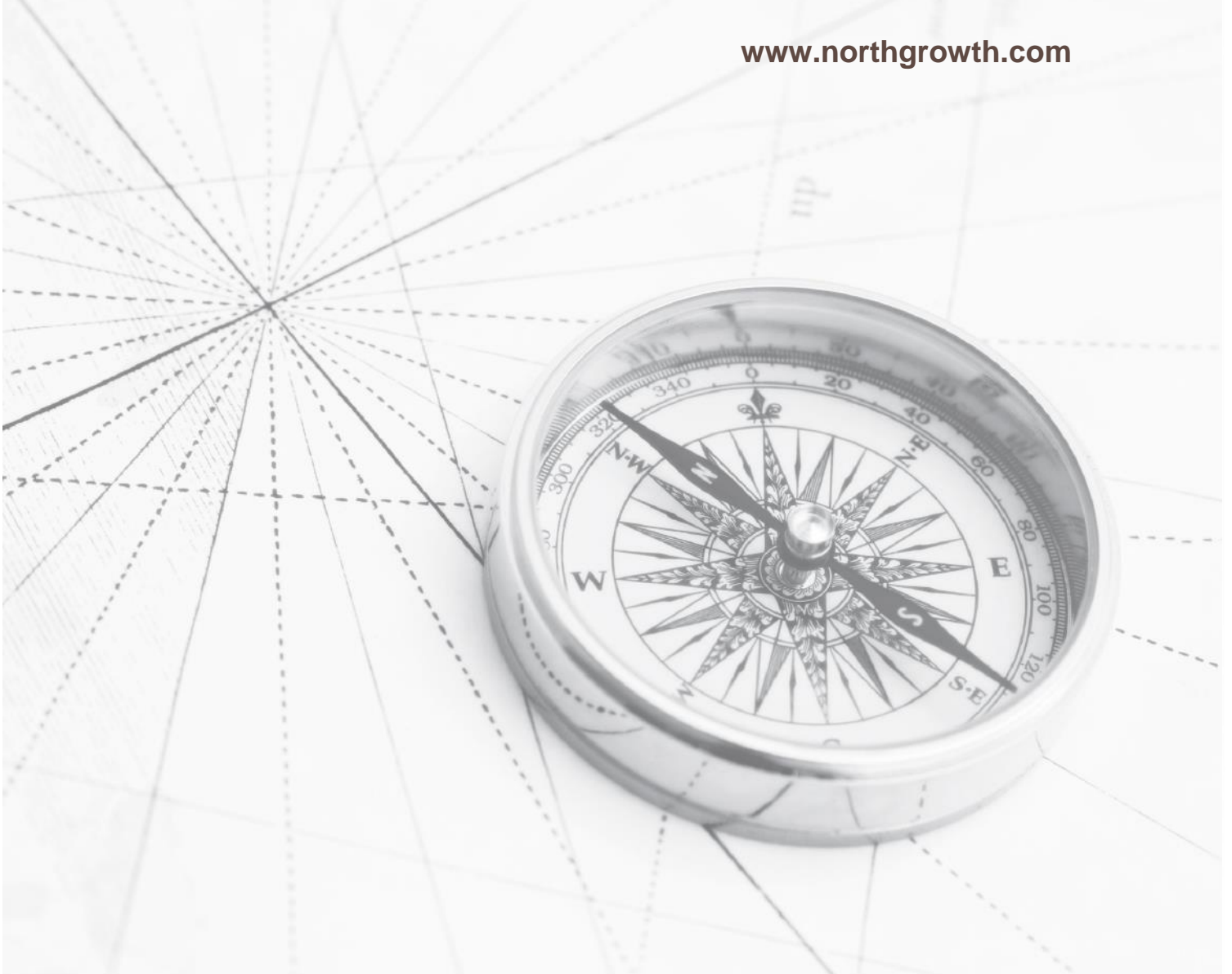
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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