

**MAY 2016**

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

June 15, 2016

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

## U.S. Equity Fund

U.S. equity markets ended May on a positive note as a broad rally took hold late in the month allowing all the indices we follow to post solid results after having drifted downwards in listless trading for most of the month. Better-than-expected results and constructive commentary from Cisco Systems helped catalyze the change in market tone. The technology heavy NASDAQ Composite Index lead the way with a 3.8% gain for the month. The North Growth U.S. Equity Fund outperformed all the other indices we follow with a 3.0% gain, versus 1.8% for the S&P 500, 2.3% for the S&P 400 MidCap and 1.7% for the S&P 600 SmallCap.

The 4.6% decline for the Canadian dollar during May simply unwound the strong gains in April leaving the currency flat over the two month period but still up 5.7% for the year. The decline in the Canadian dollar during May boosted the Fund's monthly performance in Canadian dollars to 7.6% versus the S&P 500's Canadian dollar return of 6.4%.

## Canadian Equity Fund

In Canada the S&P/TSX Composite Index ground out a 1.0% gain for the month as commodities continued to rally. Despite having no direct exposure to commodities, the North Growth Canadian Fund posted a solid 2.6% gain during May due largely to strong moves from Sierra Wireless, Open Text and Dorel.

## Fundamentals for a change...

In May, we were encouraged by the earnings results and subsequent strong price movements from four of the U.S. Fund holdings, representing approximately 20% of the portfolio. The video game producer, Electronic Arts, led off with adjusted earnings up 28% maintaining a multi-year trend of strong earnings growth and driving a 15% gain in its stock price. Mid-month, the Fund's largest holding, Cisco Systems beat low expectations with modest growth and a constructive outlook. Cisco's results not only drove the stock up 8% over the next few days, but, at least temporarily, seemed to change the overall market tone. On the same day that Cisco reported, teen apparel retailer, American Eagle Outfitters, showed that not all retailers are the same with 7% sales growth and great operating leverage driving earnings per share up by 47%. Applied Materials, the leading manufacturer of semiconductor and display production equipment, followed suit rallying 20% after reporting that orders grew 37% year-over-year.

In late April, Abbott Laboratories announced its intention to acquire a long term core holding for the U.S. Fund, St. Jude Medical. With little upside remaining in the name we began reallocating the 5% holding in St. Jude Medical to other names. We have built a good

knowledge base over the past decade in the cardiac devices market and will maintain exposure to this sector through new holdings in Boston Scientific and Abbott Laboratories. In addition we used some of the proceeds from the St. Jude sale to add to existing positions in hospital and medical records software system provider Cerner Systems, and solar inverter manufacturer, SolarEdge.

St. Jude is the third portfolio holding to be acquired in the last 12 months. Precision Castparts was taken over by Berkshire Hathaway last year and RiteAid by Walgreens. These three holdings combined represented over 10% of the portfolio and were the primary source of cash for new investments during this period.

Our carbon free investment strategy is not simply one of divestment. We continue to look for opportunities to invest directly in renewable energy and have built meaningful positions in First Solar, the leading thin film utility scale solar panel and systems developer, and inverter manufacturer, SolarEdge, for exposure to the residential solar market. Both of these companies are somewhat unique in the solar field because in addition to generating strong cash flow and earnings they both have considerable financial flexibility with significant net cash on their balance sheets. Outside of these pure play renewable energy investments many of our holdings are making substantial investments in clean energy or energy conservation initiatives.

## **Our View**

We maintain our constructive view on U.S. equities. Against the ongoing steady U.S. economic expansion, overall equity valuations are reasonable and company fundamentals solid. The U.S. Fund remains fully invested, and as such, we are focused on identifying relative adjustments to the portfolio holdings, taking advantage of near term market opportunities. As always, we are adhering closely to our long term “growth at a reasonable price” investment discipline.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended May 31, 2016

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	7.57	5.80	-0.11	-2.41
S&P 500 in \$CDN	6.36	5.73	0.08	-1.89
<b>NGM U.S. Equity Fund \$U.S.</b>	2.96	9.20	1.75	3.02
S&P 500 \$U.S.	1.80	9.12	1.93	3.57
S&P 400 MidCap \$U.S.	2.31	12.38	3.00	7.48
S&P 600 SmallCap \$U.S.	1.66	11.28	0.53	5.59
NASDAQ Composite \$U.S.	3.83	8.97	-2.44	-0.57

## Annualized Rates of Return (%) for the Period Ended May 31, 2016

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	4.20	18.69	16.53	9.43	8.35	11.13	12.71
S&P 500 \$CDN	7.22	20.09	18.63	9.30	4.44	7.64	9.56
<b>NGM U.S. Equity Fund \$U.S.</b>	-1.15	9.76	9.69	7.54	9.52	11.37	12.46
S&P 500 \$U.S.	1.72	11.06	11.67	7.41	5.56	7.88	9.32
S&P 400 MidCap \$U.S.	-0.42	9.69	10.00	8.51	8.74	11.05	12.05
S&P 600 SmallCap \$U.S.	0.39	9.95	10.66	7.79	9.13	9.56	11.23
NASDAQ Composite \$U.S.	-1.09	14.18	13.27	9.76	6.93	8.06	9.52*

Source: Bloomberg "Total Return Analysis" as of June 1, 2016.

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

Unit Price: \$ 46.70 CDN  
\$ 35.62 USD

Total Assets in Fund \$ 479.0 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended May 31, 2016

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	2.60	9.03	4.68	2.25
S&P / TSX \$CDN	1.00	10.24	6.11	9.46

## Annualized Rates of Return (%) for the Period Ended May 31, 2016

	1 Year	2 Years	3 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	-9.49	-3.05	8.65	N/A	N/A
S&P / TSX \$CDN	-3.31	1.14	6.77	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: \$ 17.64 CDN

Total Assets in Fund \$ 38.8 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended May 31, 2016

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.54	0.49	0.72	0.77
30 Day Treasury Bill	N/A	0.48	0.74	0.81

*\* 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 0.54% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

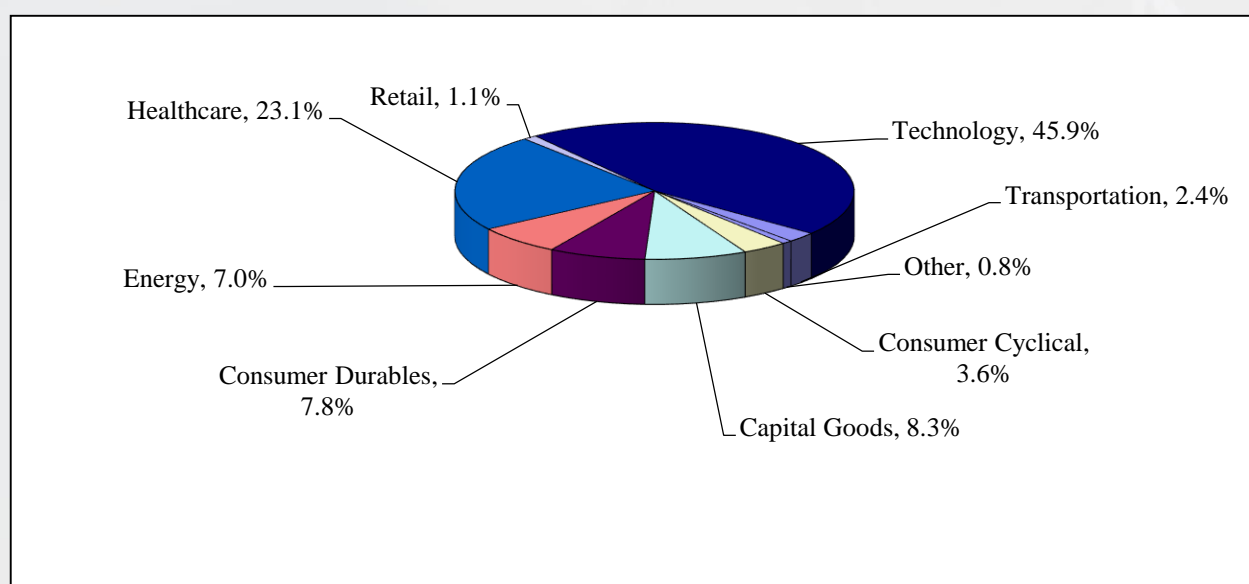
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at May 31, 2016

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	9.57
2.	Apple Inc.	7.45
3.	Intel Corporation	4.73
4.	First Solar Inc.	4.70
5.	Microsoft Corporation	4.46
6.	General Electric Company	4.10
7.	Anthem Inc.	4.07
8.	Citrix Systems Inc.	3.80
9.	Applied Materials Inc.	3.72
10.	Zimmer Biomet Holdings Inc.	3.67
Top 10		50.27
Total Equities		99.15
Cash		0.85
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at May 31, 2016

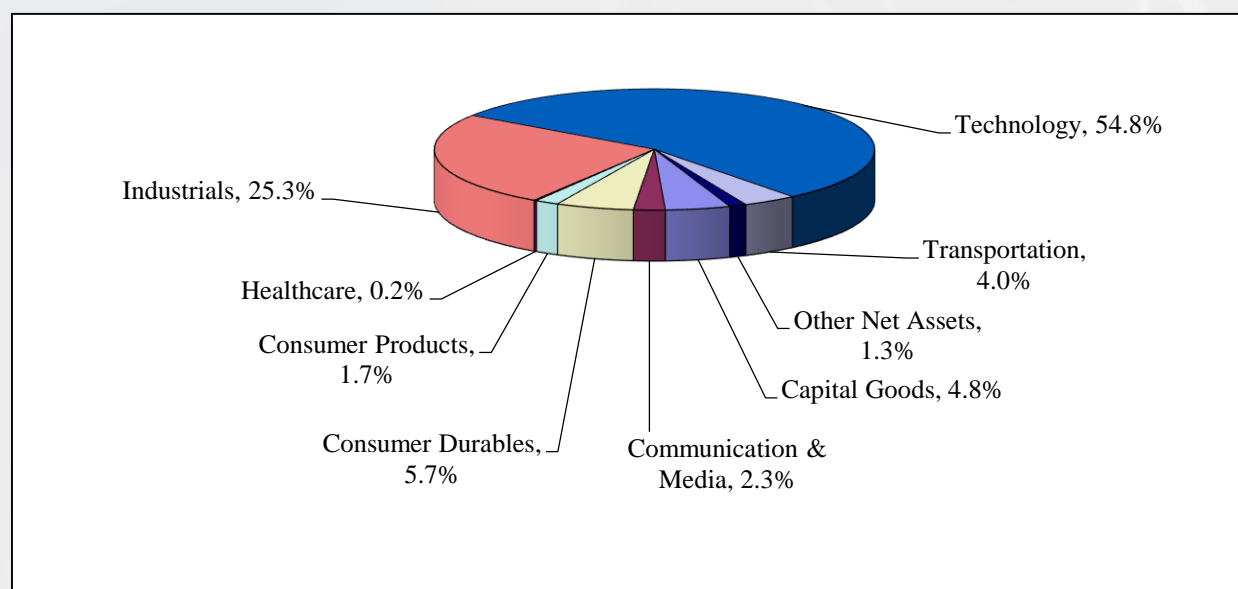




## Canadian Equity Fund – Top 10 Holdings as at May 31, 2016

Ranking	Security	% of Net Assets
1.	Sandvine Corporation	8.15
2.	Open Text Corporation	7.43
3.	Sierra Wireless Inc.	6.07
4.	Heroux-Devtek Inc.	5.89
5.	Dorel Industries Inc., Class B	5.71
6.	Avigilon Corporation	5.61
7.	CAE Inc.	5.48
8.	EXFO Inc.	5.24
9.	Mitel Networks Corp.	4.94
10.	ATS Automation Tooling Systems Inc.	4.76
Top 10		59.28
Total Equities		98.75
Cash		1.25
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at May 31, 2016



# 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

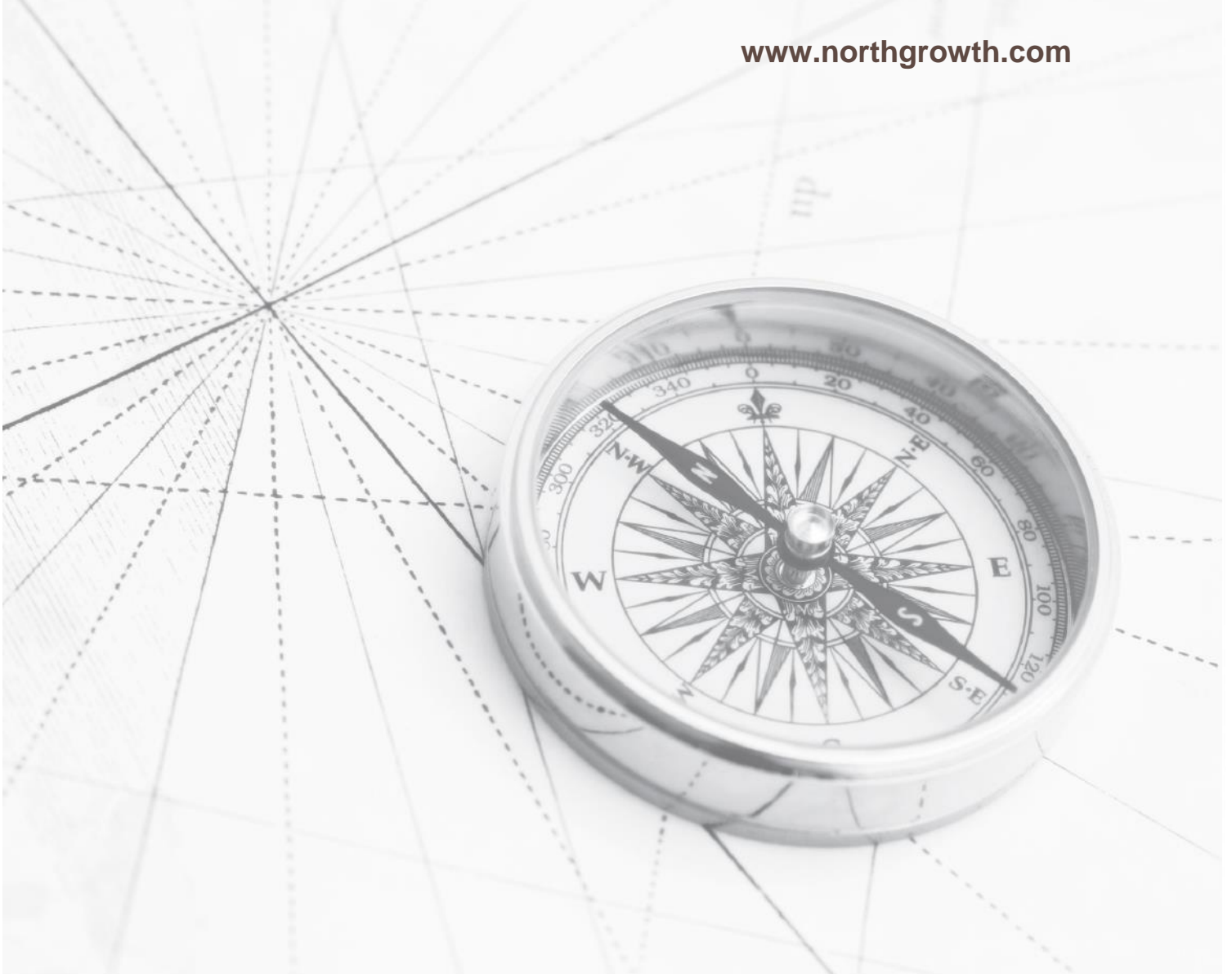
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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[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)