



**N O R T H**  
GROWTH MANAGEMENT LTD.

**MAY 2017**

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

June 15, 2017

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

Despite increasing geopolitical risks and U.S. policy uncertainty, equities continued their ascent in May. Buoyed by continued data supporting a sustained, moderately growing U.S. economy and solid corporate earnings results for the first quarter, U.S. stock indices have been reaching new highs throughout the year so far.

## **Our View**

Our outlook for U.S. equities remains biased toward caution. As stock valuations continue to stay near their historical highs, the U.S. market overall offers fewer opportunities of high caliber companies with attractive growth prospects trading at compelling valuations. Meanwhile, the unprecedented level of uncertainty and risks associated with U.S. policy has not dissipated and is not being factored into the increasingly rich valuations.

In this environment, we are looking to actively manage the U.S. Fund's risk lower. Applying our "growth at a reasonable price" discipline, we are putting more emphasis on the value or "reasonable price" side of the equation as growth is currently expensive and risky. We continue to reduce the average size of our portfolio holdings while also increasing the number of holdings in the Fund. Such actions have resulted in an accumulation of the Fund's cash balance to over 10%, and going forward should the sales outweigh the buys, the cash may continue to build.

## **U.S. Fund Portfolio Tweaks in May**

Following strong appreciation in stock prices and valuations, we reduced our weightings in Electronic Arts, Mohawk Industries, Cerner Corporation, and Applied Materials. The names remain core holdings in the U.S. Fund, as does Varian Medical Systems which we also trimmed during an ongoing assessment of the company in conjunction with its newly spun-out imaging components business, Varex Imaging Corporation. Additionally, we continued to pare Ethan Allen Interiors to a less consequential position. Given the challenges facing the home furnishings industry and the company's current weak results with a murky outlook for resumption of growth, coupled with a relatively expensive stock multiple, we concluded that the investment thesis for Ethan Allen has diminished.

Offsetting the sales in the portfolio last month, we added to a number of names; as the purchases amounted to more than the sales, the Fund's cash level actually dipped slightly. We increased our weightings in Pier 1, Celgene, Varex Imaging, and HP Inc.

HP, comprised of the PC and printing divisions of the former Hewlett-Packard Co, delivered another upbeat quarterly report in May. Through focused execution, the company has demonstrated accelerating sales momentum and success in gaining share in markets that have been under pressure. With its expanding lineup of products in commercial printing and emerging 3D printing technology, HP stock offers a decent long term profit growth

profile in addition to a solid dividend yield of 3% and a low price/earnings ratio of just over 10. These favourable characteristics led us to bolster the Fund's HP position from a token 0.25% to 1% last month.

### **U.S. Equity Fund**

In May, the North Growth U.S. Equity Fund appreciated 0.5%. The Fund lagged the S&P 500 Index which gained 1.4% as well as the NASDAQ Composite which advanced a stronger 2.7%, yet outperformed the smaller capitalization indices, the S&P 400 MidCap and S&P 600 SmallCap, which declined 0.5% and 2.1% respectively. A stronger Canadian currency for the month reduced the Fund's return to -0.7% in Canadian dollars versus the S&P 500's Canadian dollar monthly return of 0.2%.

### **Canadian Equity Fund**

The North Growth Canadian Equity Fund extended its streak of outperformance since the beginning of the year, gaining 1.3% in May against the S&P/TSX Composite Index which lost 1.3%. The month's strong performance boosts the Fund's year-to-date return to 16.9% versus the S&P/TSX Composite's 1.5% advance so far in 2017.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended May 31, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	-0.72	5.12	12.53	10.46
S&P 500 in \$CDN	0.20	4.26	11.40	9.25
<b>NGM U.S. Equity Fund \$U.S.</b>	0.48	3.42	11.94	9.86
S&P 500 \$U.S.	1.41	2.57	10.81	8.66
S&P 400 MidCap \$U.S.	-0.49	-0.04	6.58	4.30
S&P 600 SmallCap \$U.S.	-2.13	-1.36	3.17	-0.19
NASDAQ Composite \$U.S.	2.70	6.76	17.15	15.76

## Annualized Rates of Return (%) for the Period Ended May 31, 2017

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	17.47	15.26	19.51	9.58	9.49	10.80	12.90
S&P 500 \$CDN	20.96	18.49	21.76	9.45	6.88	7.24	10.00
<b>NGM U.S. Equity Fund \$U.S.</b>	14.08	7.13	13.28	7.06	10.39	10.91	12.52
S&P 500 \$U.S.	17.47	10.14	15.42	6.94	7.77	7.36	9.64
S&P 400 MidCap \$U.S.	17.16	9.42	14.98	8.15	9.72	11.00	12.25
S&P 600 SmallCap \$U.S.	19.63	9.93	15.74	7.94	9.77	9.92	11.56
NASDAQ Composite \$U.S.	26.84	14.92	18.59	10.34	10.57	8.68	10.12*

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

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

Unit Price: \$ 52.16 CDN  
\$ 38.64 USD

Total Assets in Fund \$ 520.0 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended May 31, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	1.33	8.87	15.86	16.93
S&P / TSX \$CDN	-1.33	0.43	3.19	1.50

## Annualized Rates of Return (%) for the Period Ended May 31, 2017

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	17.89	3.30	3.48	10.89	N/A	N/A
S&P / TSX \$CDN	12.27	4.19	4.73	8.12	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: \$ 19.89 CDN

Total Assets in Fund \$ 41.4 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended May 31, 2017

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.46	0.51	0.61	0.71
30 Day Treasury Bill	N/A	0.50	0.60	0.73

*\* 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 0.52% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

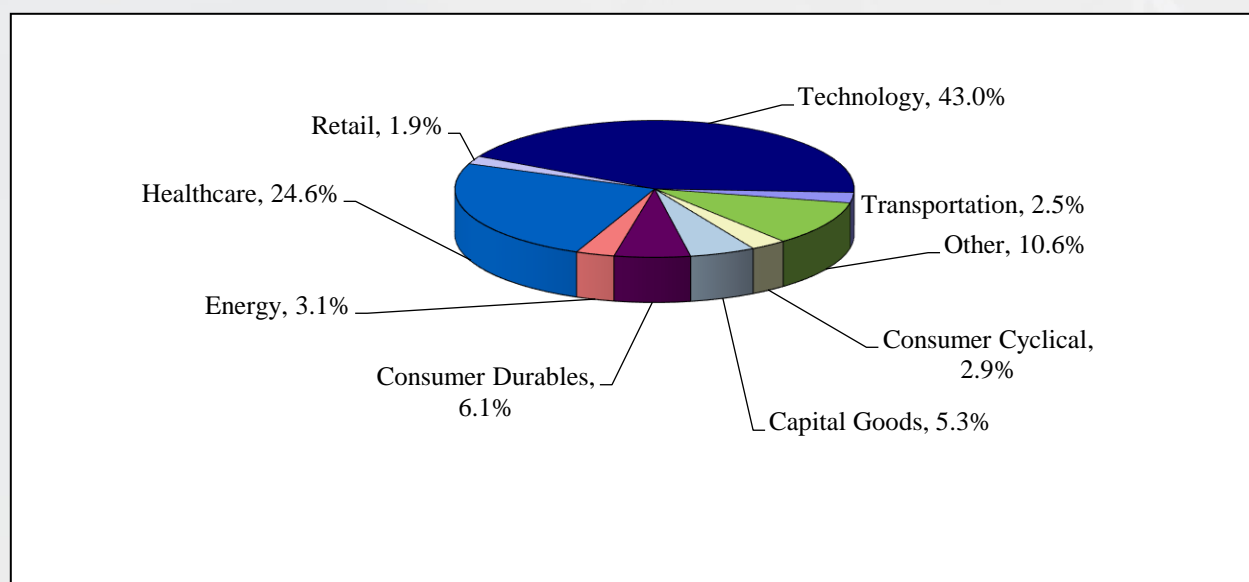
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at May 31, 2017

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	7.20
2.	Apple Inc.	7.18
3.	Applied Materials Inc.	4.82
4.	Intel Corporation	4.70
5.	Microsoft Corporation	4.23
6.	Zimmer Biomet Holdings Inc.	3.97
7.	Boston Scientific Corporation	3.37
8.	Texas Instruments Inc.	3.02
9.	Anthem Inc.	3.01
10.	American Eagle Outfitters Inc.	2.91
Top 10		44.41
Total Equities		89.40
Cash		10.60
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at May 31, 2017

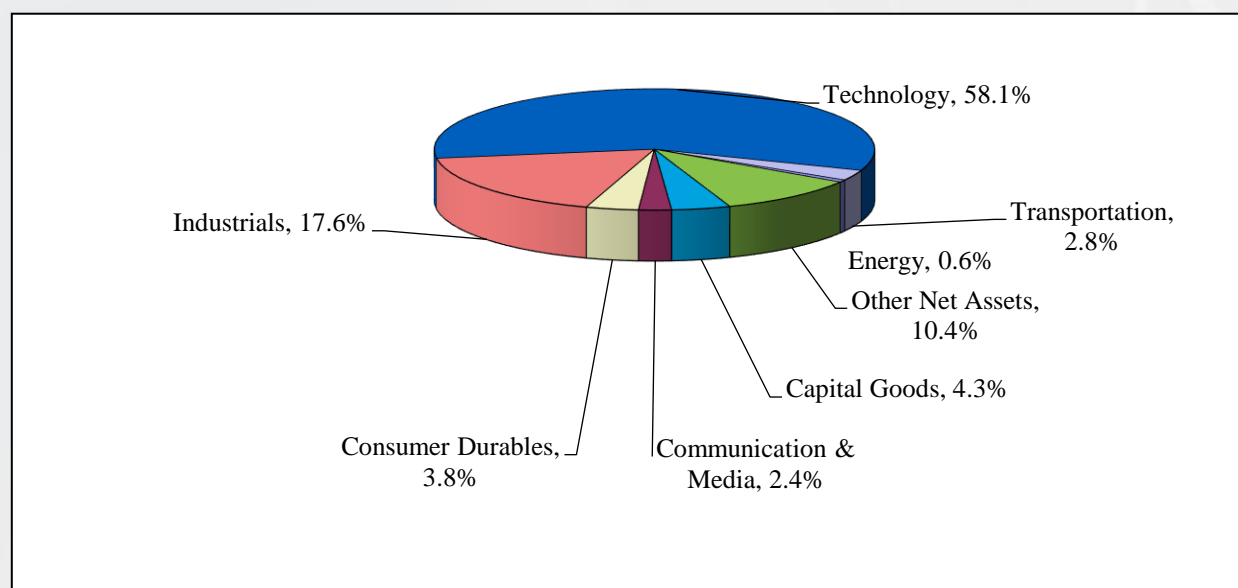




## Canadian Equity Fund – Top 10 Holdings as at May 31, 2017

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	9.07
2.	Sierra Wireless Inc.	8.04
3.	Avigilon Corporation	5.30
4.	EXFO Inc.	5.18
5.	Heroux-Devtek Inc.	4.82
6.	CAE Inc.	4.73
7.	Bombardier Inc., Class B	4.50
8.	MacDonald Dettwiler and Associates Ltd.	4.41
9.	Open Text Corporation	4.35
10.	ATS Automation Tooling Systems Inc.	4.30
Top 10		54.70
Total Equities		89.64
Cash		10.36
Total Assets		100.00

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

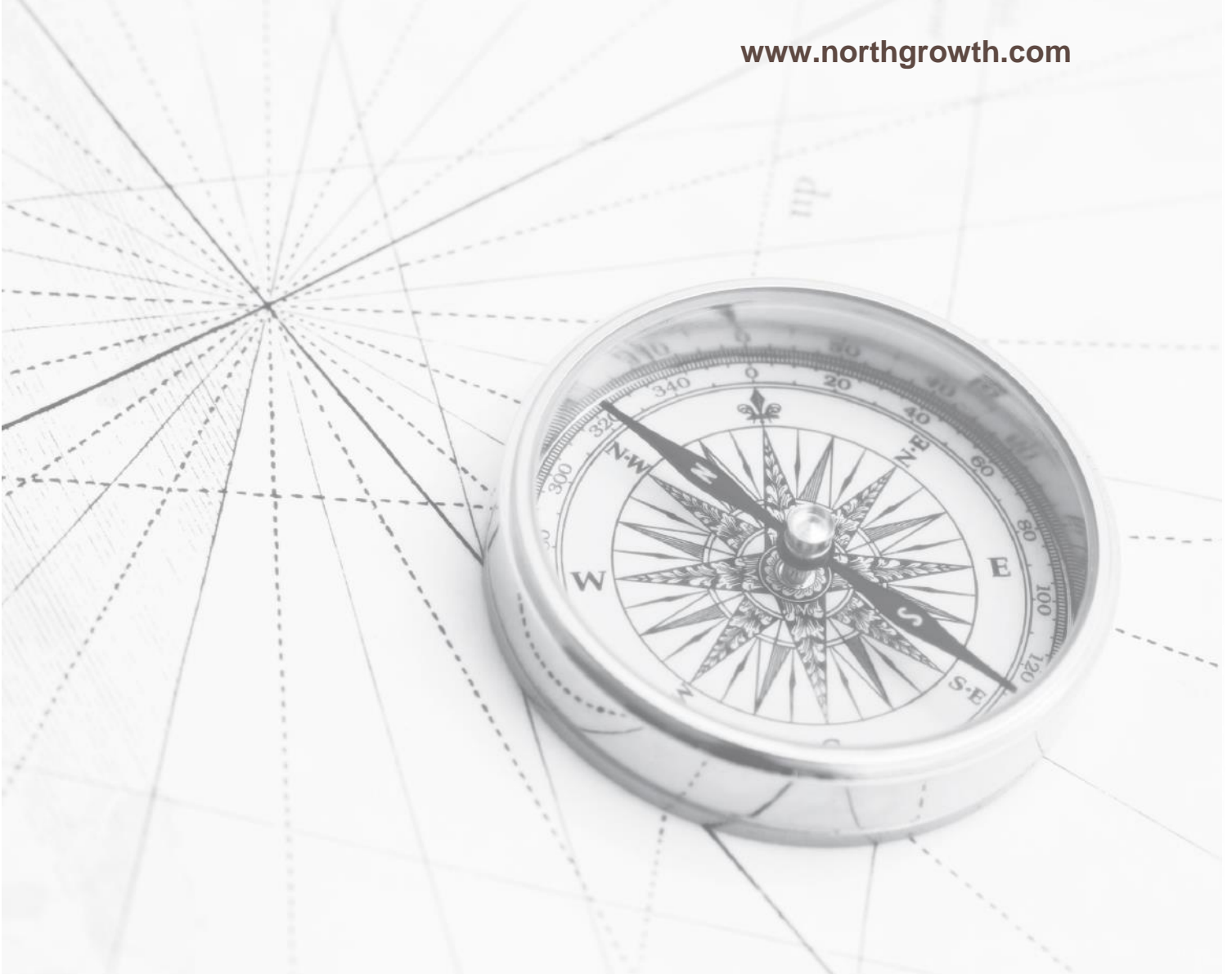
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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