

**SEPTEMBER 2014**

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

October 15, 2014

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

## U.S. Equity Fund

In September, U.S. equities lost any momentum generated in August's rally, with all the indices we regularly follow weakening as the month progressed. The S&P 600 SmallCap and S&P 400 MidCap Indices gave up pretty much all of their gains from August with declines of -5.4% and -4.6% respectively. The NASDAQ Composite and S&P 500 Indices posted more modest declines of -1.8% and -1.4%.

The North Growth U.S. Equity Fund underperformed the larger capitalization NASDAQ Composite and S&P 500 Indices with a decline of 4.7% during September. In recent months the Fund's performance has been more correlated with the larger capitalization indices. While the Fund's September declines were more in line with the smaller capitalization indices this does not reflect a change in our positioning towards smaller cap names, rather it was the result of weakness in two of our smaller holdings and most notably the decline in the stock price of what has been one of our core holdings, GT Advanced Technologies (GTAT).

We viewed the decline in GTAT's share price in September as an overreaction largely caused by the end of speculation that sapphire produced by GTAT in a venture with Apple would be used to produce screen covers for the recently introduced iPhone 6. While the original intent of the GTAT/Apple sapphire venture is shrouded in secrecy stemming from confidentiality agreements, we interpreted GTAT's June quarter results and related commentary provided by GTAT on its August 5<sup>th</sup> conference call as confirmation that inclusion in the iPhone 6 was unlikely. We felt the commentary confirmed our original opinion that the initial product was most likely intended for the Apple Watch, with other screen covers likely next year in a future product release. We remained confident in the long term growth of GTAT's traditional crystal growth equipment business, the Apple sapphire venture and a number of recently introduced products. With the decline in GTAT's share price eliminating short term speculation on a rapid iPhone related ramp and the resulting decrease in the weight in our portfolio, we bought more shares in September and on October 1<sup>st</sup> to maintain our weighting at around 4%.

On October 6<sup>th</sup> we were blindsided by GT Advanced Technologies' Chapter 11 bankruptcy filing, which resulted in an immediate loss of over 90% of the value in this holding. The details as to how a company, that as of June 28<sup>th</sup> had \$330M in cash on hand and as of August 5<sup>th</sup> had been guiding to year end cash balances of \$400M could suddenly stun the market with a surprise bankruptcy filing on October 6<sup>th</sup> remains obscured.

What we do know is that GTAT is facing a severe liquidity crisis directly related to the supply agreement with Apple. GTAT's bankruptcy filing is an event of default on all their liabilities. With the bankruptcy process focused on protecting the interest of the creditors, there is very little likelihood of any meaningful recovery of value for shareholders and in all probability the shares will stop trading on the NASDAQ. As such, we liquidated our holdings at an average price of \$1.09 realizing a significant capital loss from our \$8.29 average cost.

With the benefit of hindsight, the last transactions are very difficult to swallow and have been tormenting us for the past week. It is a gut wrenching experience. Our decisions on GTAT are in line with those we make regularly on any other investment. Our actions are guided by our investment philosophy, based on the information available at the time and the knowledge we have of our companies. The aggregate track record of our decisions are quantified in our long term performance record. While we fully expect to be wrong some of the time, this situation was beyond anything we have experienced. We will continue to follow the bankruptcy proceedings to get a better understanding of what transpired.

## Canadian Equity Fund

The S&P/TSX Composite Index fell 4% during September with commodity prices and particularly oil continuing to fall and the market beginning to acknowledge that this supply induced decline could be more persistent than some had believed. The North Growth Canadian Equity Fund, which has generally delivered better relative results in this type of environment, was surprisingly weak during September, falling 4.2%. We think the broad weakness in Canadian equities beyond the traditional commodity related names may be the result of foreign investors reducing overall Canadian equity exposure due to the persistent commodity weakness and the falling Canadian dollar.

## Our View

With very little corporate related news in September, the market seemed to focus on broader geopolitical concerns including heightened anxiety with regards to the conflicts in the Middle East, lack of progress in diffusing the tensions between Russia and the West and the increasing threat of the Ebola epidemic. The potential for Hong Kong student protests becoming another Tiananmen Square situation also became a new area of concern. On the economic front, weakness in the German economy is undermining the case for a gradual improvement in Europe. In contrast, ongoing evidence of the strengthening U.S. economy has many worried about an earlier than anticipated move by the U.S. Federal reserve to begin tightening monetary policy beyond the initial step of stopping the expansion of its balance sheet with the end of QE3. On top of all this we can throw in the pending U.S. midterm elections, which always seem to create increased volatility. In short fear is gaining ground.

Over the past year, those inclined to try and time the market have become increasingly vocal with their calls for a market correction becoming cacophonous by mid-September. With the correction now well underway we likely will see money that has been sitting on the sidelines moving back into equities. In addition, as we move through the third quarter reporting period, we expect the heavy flow of corporate news will shift attention back towards corporate fundamentals and the prospect for continued strengthening of the U.S. economy. Improving employment trends, accelerating credit growth and now lower energy prices provide a supportive macro-environment for continued growth. We believe the broad-based market decline has created some interesting relative valuation opportunities. In the near-term, we expect the flow of corporate earnings results to provide some confirmation of the opportunities we see developing and will use this information to help guide some minor repositioning within our portfolios.

# North Growth U.S. Equity Fund

### Short Term Rates of Return (%) for the Period Ended September 30, 2014

	1 Month	3 Months	6 Months	YTD
NGM U.S. Equity Fund in \$CDN	-1.88	4.36	6.24	15.14
S&P 500 in \$CDN	1.56	6.15	7.82	14.09
NGM U.S. Equity Fund \$U.S.	-4.74	-0.58	4.86	9.34
S&P 500 \$U.S.	-1.40	1.13	6.42	8.34
S&P 400 MidCap \$U.S.	-4.55	-3.98	0.17	3.22
S&P 600 SmallCap \$U.S.	-5.37	-6.73	-4.80	-3.72
NASDAQ Composite \$U.S.	-1.81	2.24	7.67	8.56

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

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	<b>28.27</b>	<b>23.67</b>	<b>15.96</b>	<b>8.33</b>	<b>10.51</b>	<b>12.32</b>	<b>12.61</b>
S&P 500 \$CDN	30.16	25.74	16.74	6.83	3.00	8.60	9.05
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>17.99</b>	<b>20.97</b>	<b>14.92</b>	<b>9.63</b>	<b>12.52</b>	<b>13.34</b>	<b>13.15</b>
S&P 500 \$U.S.	19.73	22.99	15.70	8.11	4.87	9.59	9.58
S&P 400 MidCap \$U.S.	11.82	22.43	16.37	10.29	10.36	12.36	12.45
S&P 600 SmallCap \$U.S.	5.74	22.86	16.24	9.33	10.05	10.96	11.48
NASDAQ Composite \$U.S.	20.64	24.66	17.60	10.29	4.27	9.26*	9.80*

Source: Bloomberg "Total Return Analysis" as of Oct 1, 2014.

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

Unit Price: \$ 40.50 CDN  
\$ 36.16 USD

Total Assets in Fund \$ 401.0 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended September 30, 2014

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>-4.20</b>	<b>-5.84</b>	<b>-3.97</b>	<b>9.88</b>
S&P / TSX \$CDN	-3.99	-0.59	5.79	12.20

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

	1 Year	2 Years	3 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	<b>19.72</b>	<b>29.34</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
S&P / TSX \$CDN	20.38	13.56	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: \$ 20.04 CDN

Total Assets in Fund \$ 39.2 Million CDN

# North Growth Canadian Money Market Fund

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

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	<b>0.9</b>	<b>0.87</b>	<b>0.86</b>	<b>0.72</b>
30 Day Treasury Bill	N/A	0.91	0.91	0.78

*\* 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 0.9% 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 September 30, 2014

Ranking	Security	% of Net Assets
1.	Apple Inc.	9.74
2.	Cisco Systems Inc.	9.24
3.	Intel Corporation	6.24
4.	Microsoft Corporation	4.83
5.	WellPoint Inc.	4.53
6.	Citrix Systems Inc.	4.21
7.	GT Advanced Technologies Inc.	4.07
8.	St. Jude Medical Inc.	3.97
9.	Gilead Sciences Inc.	3.71
10.	First Solar Inc.	3.58
11.	Cerner Corporation	3.28
12.	Zimmer Holdings Inc.	3.08
13.	Texas Instruments Inc.	3.06
14.	Electronic Arts Inc.	2.72
15.	Pfizer Inc.	2.54
16.	Precision Castparts Corp.	2.53
17.	Amgen Inc.	2.39
18.	Herman Miller Inc.	2.37
19.	Qualcomm Inc.	2.15
20.	Ethan Allen Interiors Inc.	2.12
21.	Varian Medical Systems Inc.	2.00
22.	Pier 1 Imports Inc.	1.81
23.	Rite Aid Corporation	1.74
24.	General Electric Company	1.73
25.	DSP Group Inc.	1.60
26.	Bristol-Myers Squibb Company	1.57
27.	Applied Materials Inc.	1.56
28.	Jacobs Engineering Group Inc.	1.50
29.	American Eagle Outfitters Inc.	1.47
30.	Gap Inc.	1.46
31.	Itron Inc.	1.23
32.	Johnson Controls Inc.	1.10
33.	Endocyte Inc.	0.16
Total Equities		99.29
Cash		0.71
Total Assets		100.00



## Canadian Equity Fund –Holdings as at September 30, 2014

Ranking	Security	% of Net Assets
1.	Sandvine Corporation	8.90
2.	Open Text Corporation	6.96
3.	Ballard Power Systems Inc.	6.94
4.	Bombardier Inc., Class B	6.36
5.	WestJet Airlines Ltd.	5.78
6.	Martinrea International Inc.	5.61
7.	Celestica Inc.	5.54
8.	Dorel Industries Inc., Class B	4.71
9.	COM DEV International Ltd.	4.63
10.	CAE Inc.	4.50
11.	Valeant Pharmaceuticals International, Inc.	4.50
12.	EXFO Inc.	4.34
13.	ATS Automation Tooling Systems Inc.	3.79
14.	MacDonald Dettwiler and Associates Ltd.	3.57
15.	Avigilon Corporation	3.53
16.	Jean Coutu Group (PJC) Inc., Class A	3.42
17.	Sierra Wireless Inc.	3.23
18.	Stantec Inc.	2.99
19.	GSI Group Inc.	2.90
20.	Heroux –Devtek Inc.	2.76
21.	Mitel Networks Corp.	1.68
22.	TELUS Corporation	1.66
23.	IMRIS Inc .	0.95
24.	Oncolytics Biotech Inc.	0.24
Total Equities		99.48
Cash		0.52
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](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) 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>

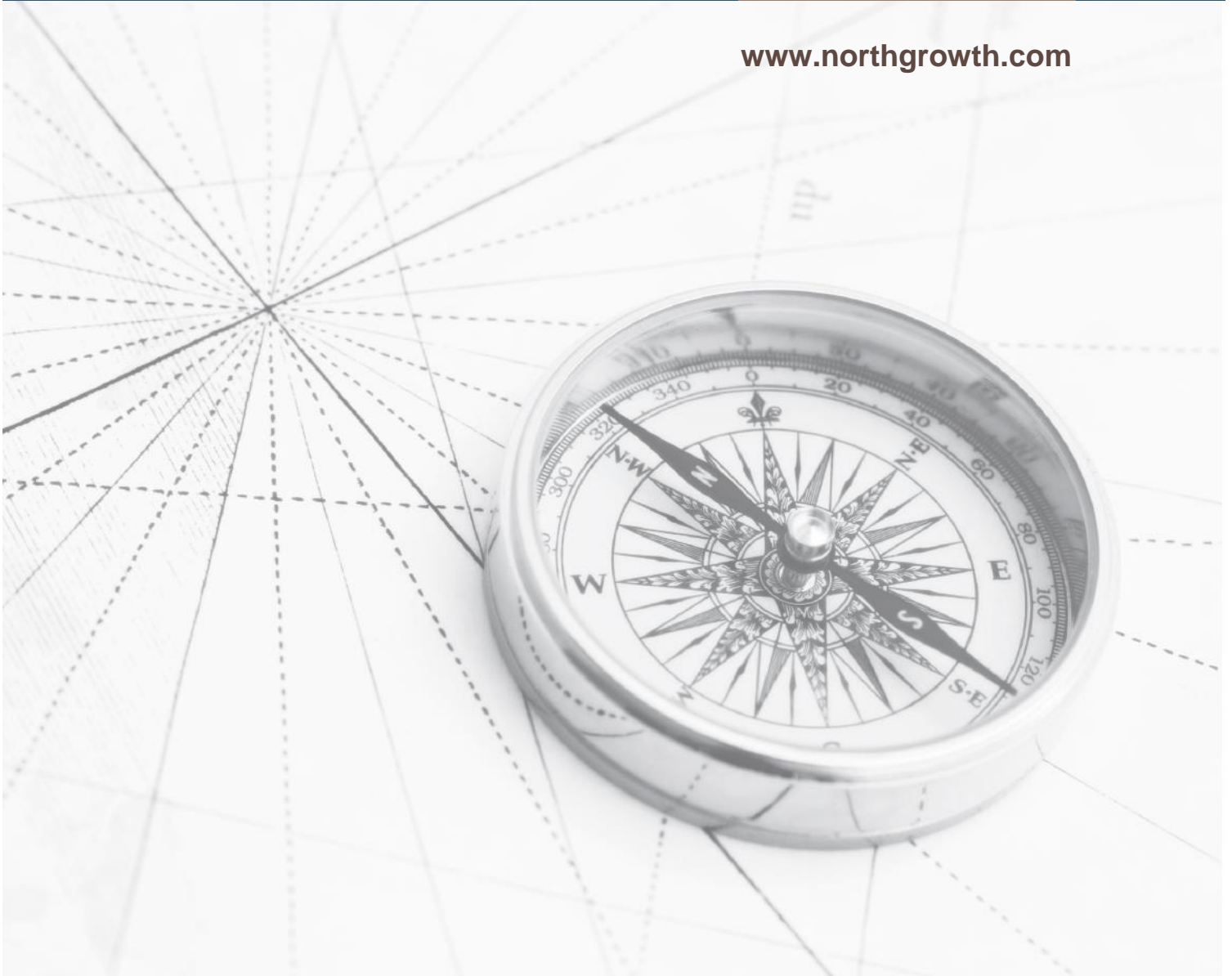
North Growth Canadian Money Market Fund

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



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