

**AUGUST 2017**

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

September 15, 2017

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

Throughout the summer, in spite of an increasingly uncertain political environment and growing geopolitical risks, U.S. equities continued to reach new highs on subdued trading activity. The dog days of summer epitomized August as the U.S. stock markets posted moderate gains during an unusually calm month.

## Second Quarter Earnings

From a fundamental perspective, solid U.S. corporate earnings have been the highlight of the past two months. We have been pleased with virtually all the results of the companies in the North Growth U.S. Equity Fund to date.

With 94% of the portfolio having reported so far, profits on a weighted-average basis in the April-to-June quarter increased 24.1% over a year ago versus estimates of 13.0% growth. And 85% of the portfolio's earnings results have exceeded analysts' estimates.

For the market in general, earnings during the latest quarter increased 10.2% year-over-year while sales grew 5.1%. Similar to the first quarter of 2017, the most meaningful boost to S&P 500 profits as a whole came from the energy sector in the second quarter due to unusually low earnings of the energy companies in the year-ago period. Excluding the energy sector, the earnings growth rate for the remainder of the S&P 500 would fall to 7.8%.

According to FactSet, with over 90% of the companies in the S&P 500 having reported earnings as of August 31st, 73% of the reporting companies delivered positive earnings surprises while 69% beat sales estimates.

As illustrated below, the earnings growth profile of the U.S. Fund compares favourably against the overall market.



\* Source for S&P 500 Index: FactSet Earnings Insight

## **Our view**

We maintain our cautious outlook for U.S. equities. Despite a positive macroeconomic backdrop and strong corporate earnings growth, stock valuations continue to climb and are at the high end of their historical range. Furthermore, the unprecedented levels of political uncertainty and geopolitical risks do not appear to be adequately factored into the expensive equity markets.

Throughout this year, we have been actively managing the U.S. Fund's risk lower by both reducing the average size of the portfolio holdings and increasing the number of holdings in the Fund. The repositioning of both the U.S. and Canadian portfolios has the effect of realizing substantial capital gains; accordingly, we anticipate the annual distribution, payable in December, will be higher than we have seen over the past few years.

Our current estimate of the distribution for the U.S. Equity Fund is approximately \$7.00 per unit or 14% of the unit price and for the Canadian Equity Fund approximately \$1.50 per unit or 7% of the unit price. The distributions will be almost entirely capital gains.

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

In August, the North Growth U.S. Equity Fund appreciated 1.6%. The Fund outperformed all the indices we regularly track: the S&P 500 and NASDAQ Composite which gained 0.3% and 1.4% respectively, as well as the smaller capitalization S&P 400 MidCap and S&P 600 SmallCap which declined 1.5% and 2.6% respectively. A slightly weaker Canadian currency for the month boosted the Fund's return in Canadian dollars to 2.0% versus the S&P 500 Index which was up 0.7% in Canadian dollars.

## **Canadian Equity Fund**

The North Growth Canadian Equity Fund declined 1.5% in August against the S&P/TSX Composite Index which gained 0.7%. Year-to-date, the Fund continues to outperform with its 14.8% appreciation versus the S&P/TSX's advance of 1.4%.

# North Growth U.S. Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	2.00	-3.29	1.66	6.82
S&P 500 in \$CDN	0.72	-4.35	-0.27	4.50
<b>NGM U.S. Equity Fund \$U.S.</b>	1.58	4.14	7.70	14.41
S&P 500 \$U.S.	0.31	3.01	5.65	11.93
S&P 400 MidCap \$U.S.	-1.53	0.94	0.90	5.28
S&P 600 SmallCap \$U.S.	-2.56	1.32	-0.06	1.13
NASDAQ Composite \$U.S.	1.43	4.00	11.03	20.38

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

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	8.50	11.55	18.53	9.34	9.69	10.03	12.61
S&P 500 \$CDN	11.09	14.87	20.04	9.47	7.48	6.64	9.70
<b>NGM U.S. Equity Fund \$U.S.</b>	13.52	6.39	12.97	7.48	11.29	10.60	12.57
S&P 500 \$U.S.	16.23	9.54	14.40	7.61	9.06	7.18	9.67
S&P 400 MidCap \$U.S.	12.37	8.07	14.03	8.87	11.06	10.39	12.16
S&P 600 SmallCap \$U.S.	13.11	9.25	14.45	8.62	11.31	9.29	11.50
NASDAQ Composite \$U.S.	24.82	13.37	17.51	10.78	12.38	8.21	10.18*

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

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

Unit Price: \$ 50.44 CDN  
\$ 40.24 USD

Total Assets in Fund \$ 502.8 Million CDN

# North Growth Canadian Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	-1.46	-1.80	6.90	14.82
S&P / TSX \$CDN	-1.44	-1.75	7.00	14.96

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

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	15.59	8.88	2.67	9.40	13.72	N/A
S&P / TSX \$CDN	7.23	7.96	2.10	7.85	8.13	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: \$ 19.53 CDN

Total Assets in Fund \$ 40.5 Million CDN

# North Growth Canadian Money Market Fund

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

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.80	0.53	0.58	0.70
30 Day Treasury Bill	N/A	0.53	0.57	0.72

*\* 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 0.80 % which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

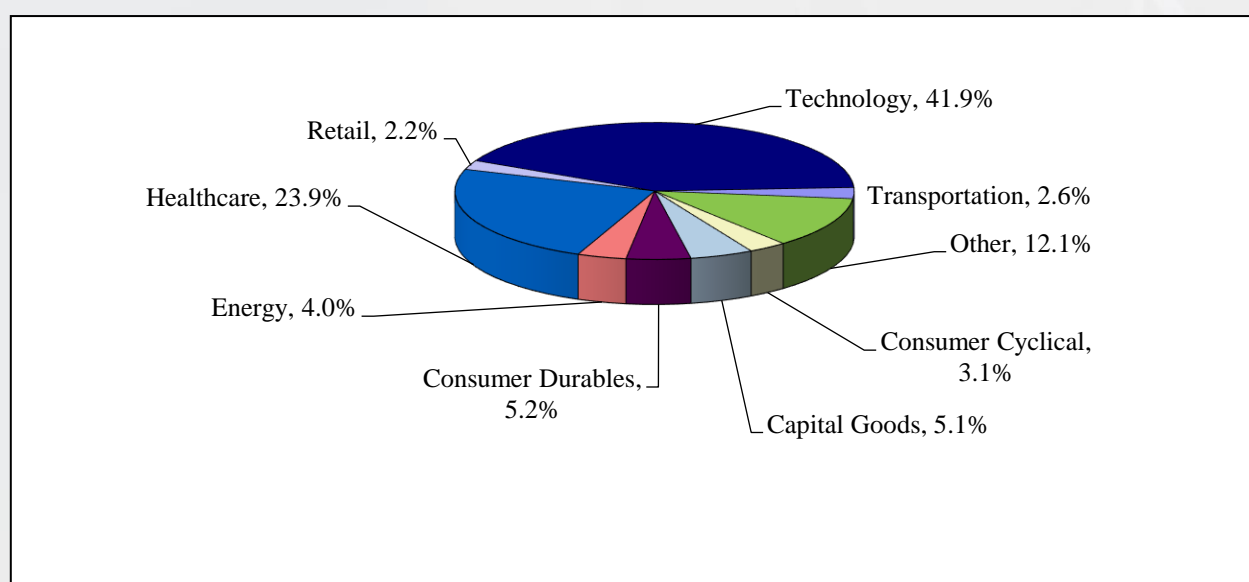
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

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

Ranking	Security	% of Net Assets
1.	Apple Inc.	6.84
2.	Cisco Systems Inc.	6.55
3.	Intel Corporation	4.39
4.	Applied Materials Inc.	4.13
5.	Microsoft Corporation	4.11
6.	American Eagle Outfitters Inc.	3.11
7.	Abbott Laboratories	2.95
8.	Gilead Sciences Inc.	2.92
9.	Boston Scientific Corporation	2.81
10.	Anthem Inc.	2.73
Top 10		40.54
Total Equities		87.92
Cash		12.08
Total Assets		100.00

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

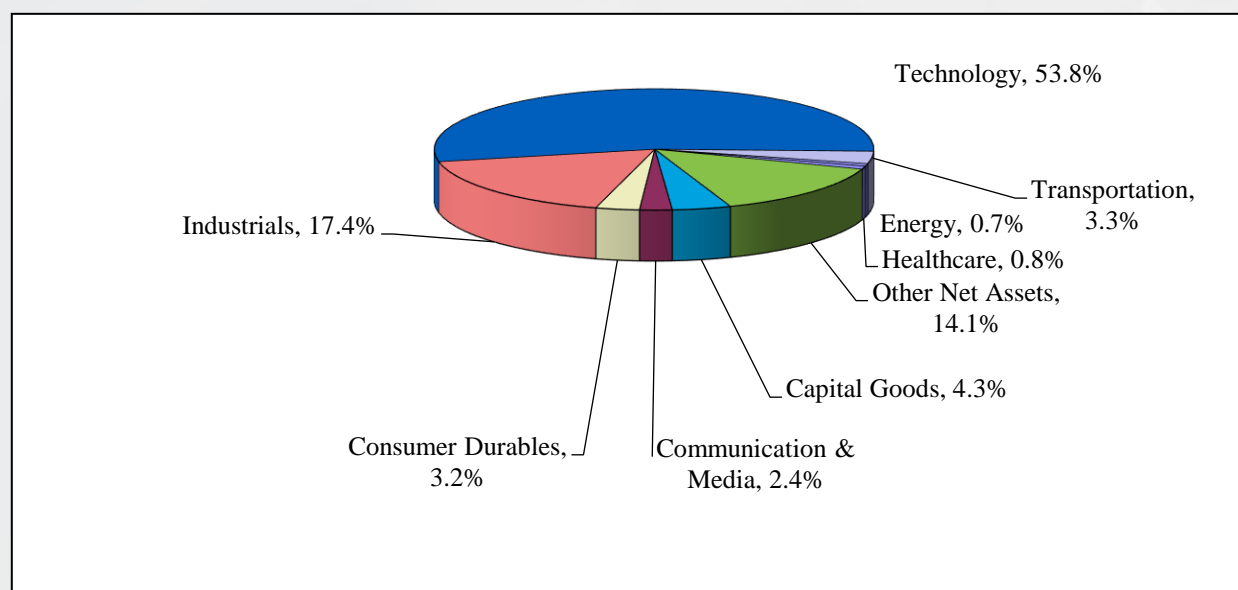




## Canadian Equity Fund – Top 10 Holdings as at August 31, 2017

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	9.71
2.	Avigilon Corporation	6.07
3.	Sierra Wireless Inc.	5.71
4.	MacDonald Dettwiler and Associates Ltd.	4.94
5.	Heroux-Devtek Inc.	4.90
6.	Bombardier Inc., Class B	4.72
7.	EXFO Inc.	4.69
8.	CAE Inc.	4.57
9.	ATS Automation Tooling Systems Inc.	4.29
10.	Mitel Networks Corp.	4.15
Top 10		53.75
Total Equities		85.89
Cash		14.11
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at August 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

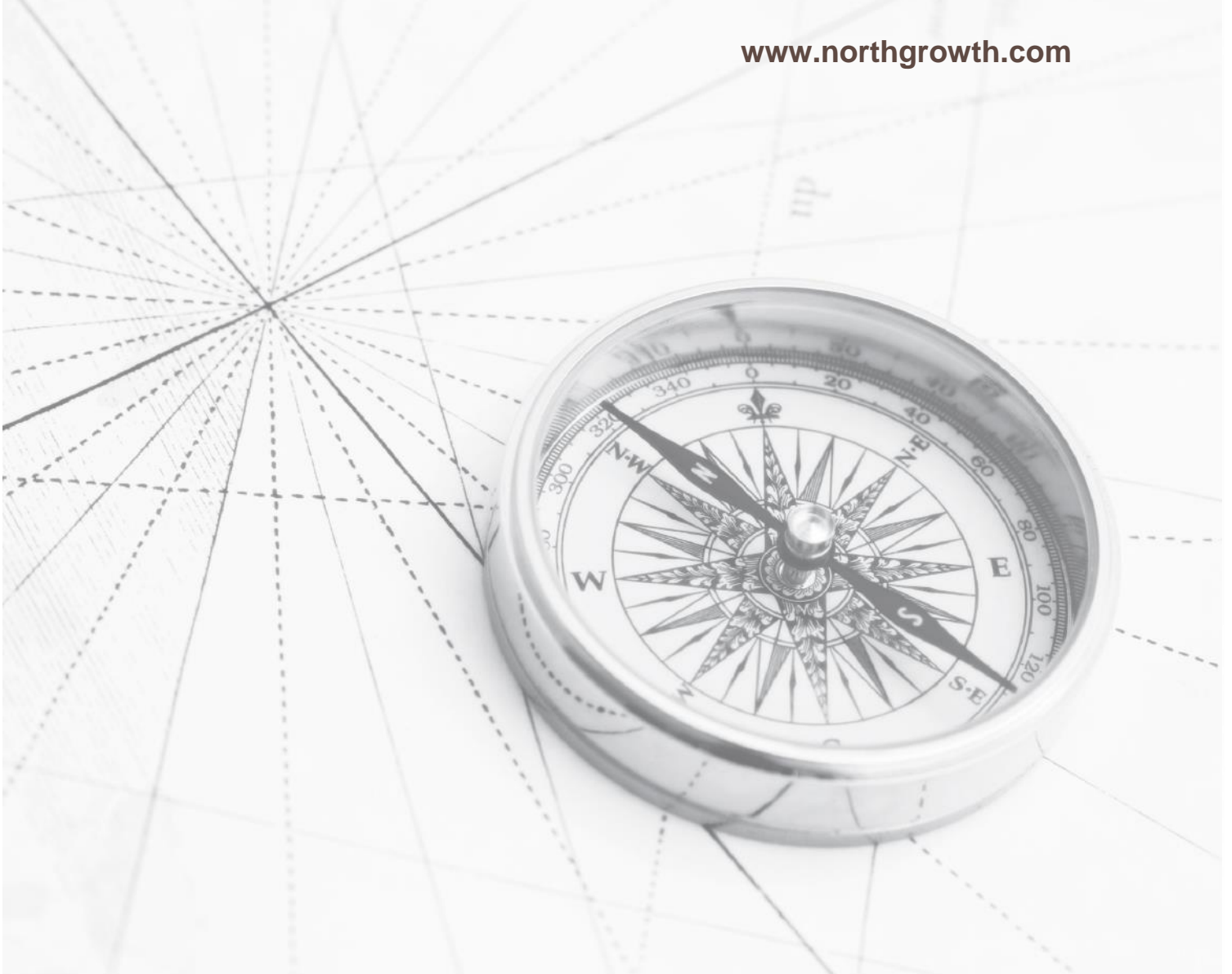
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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