

**September 2017**

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

October 12, 2017

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

### Table of Contents

Fund Performance Update .....	2
North Growth U.S. Equity Fund .....	4
Short Term Rates of Return .....	4
Annualized Rates of Return.....	4
North Growth Canadian Equity Fund.....	5
Short Term Rates of Return .....	5
Annualized Rates of Return .....	5
North Growth Canadian Money Market Fund.....	6
Annualized Rates of Return.....	6
Equity Fund Holdings and Composition .....	7
U.S. Equity Fund.....	7
Canadian Equity Fund .....	8
Investing With Us.....	10
Investing With North Growth Management .....	10
Conducting Transactions.....	10
Where to Find NGM Fund Prices .....	10

## Fund Performance Update

September was a continuation of various months of calm and record highs in the equity markets this year. Despite a deteriorating geopolitical environment and murky outlook for U.S. policy, stocks have remained in a steady uptrend, with the S&P 500 Index registering gains in every month since the election last November.

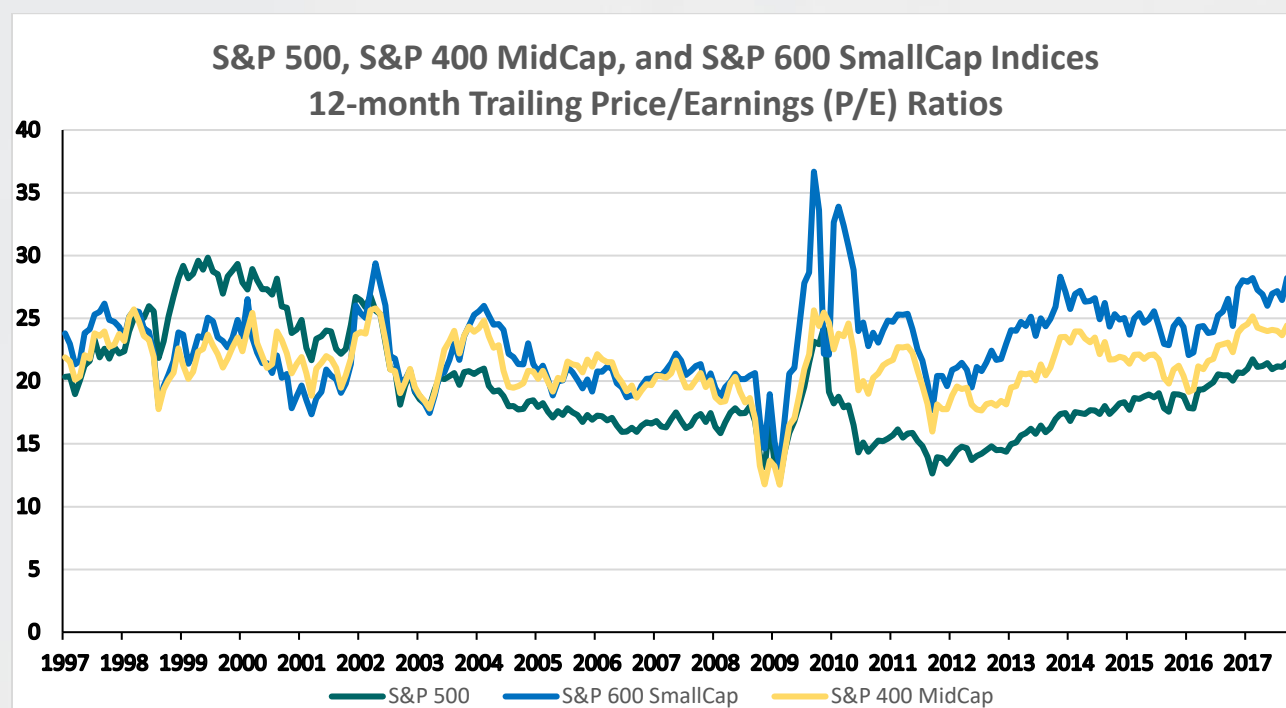
### Expensive Equity Valuations

Fundamentally, solid corporate earnings results continue to occur against the positive backdrop of a moderately growing U.S. and global economy. Currently in its eighth year, the U.S. economic expansion appears robust with the labour market continuing to strengthen amid low overall inflation. Foreign economies, particularly in Europe, have averted the severe downturns that were feared a year ago and in fact are holding up well.

Prior to late 2016, we consistently highlighted the bright corporate fundamentals and favourable macroeconomic framework described above. While there has been no change to the positive picture of a self-sustaining, growing economy and strong corporate earnings, the current unpredictable, chaotic Trump administration does present significant risks.

Notwithstanding the heightened perilous geopolitical environment and U.S. policy uncertainty facing the stock markets, the greatest threat remains the near historical-high equity valuations. As U.S. equities have ignored the political risks abound and continued to climb to new records, valuations have become increasingly rich.

The stock markets are broadly expensive. Unlike the late '90s when excessive valuations were concentrated among the large-caps and internet (high-tech) sectors, the currently steep valuations apply across various industries and capitalization classes.



Data source: Bloomberg

## **Our View**

Our outlook for U.S. equities remains biased toward caution. We continue to emphasize the value or “reasonable price” aspect of our “growth at a reasonable price” discipline as growth is expensive and risky. In keeping with our efforts to lower the multiple of the U.S. Fund, the portfolio remains more heavily weighted in large-cap names. The S&P 500 Index, by comparison, is relatively less expensive than its smaller capitalization counterparts, the S&P 400 MidCap and S&P 600 SmallCap Indices.

However, it is noteworthy that of late the purchases in the Fund have been tilted toward more mid- and small-cap holdings as we have identified some relatively compelling investments in lesser-known companies. We maintain focused on the analysis of individual stocks and adhere diligently to our “growth at a reasonable price” philosophy.

## **Tax Information Update**

December 15<sup>th</sup> is the distribution date for both the North Growth U.S. Equity Fund and North Growth Canadian Equity Fund. The repositioning of both portfolios this year has realized substantial capital gains; accordingly, we anticipate the annual distribution will be higher than we have seen over the past several 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 September, the North Growth U.S. Equity Fund appreciated 3.0%. The Fund outperformed the S&P 500 which gained 2.1% and the NASDAQ Composite which advanced 1.1%, while lagging the smaller capitalization indices, the S&P 400 MidCap and S&P 600 SmallCap, which were up 3.9% and 7.7% respectively. In Canadian dollars, the Fund increased 2.5% for the month versus the S&P 500's Canadian dollar monthly return of 1.6%.

## **Canadian Equity Fund**

The North Growth Canadian Equity Fund appreciated 5.5% in September, beating the S&P/TSX Composite Index which gained 3.1%. Year-to-date, the Fund continues to outperform substantially with its 21.2% return against the S&P/TSX's advance of 4.5%.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended September 30, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	2.54	2.75	2.63	9.54
S&P 500 in \$CDN	1.61	0.48	1.07	6.18
<b>NGM U.S. Equity Fund \$U.S.</b>	3.00	6.84	9.36	17.85
S&P 500 \$U.S.	2.06	4.48	7.71	14.24
S&P 400 MidCap \$U.S.	3.92	3.22	5.26	9.40
S&P 600 SmallCap \$U.S.	7.71	5.96	7.78	8.92
NASDAQ Composite \$U.S.	1.10	6.06	10.52	21.71

## Annualized Rates of Return (%) for the Period Ended September 30, 2017

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	11.04	13.20	18.89	10.05	10.21	9.81	12.68
S&P 500 \$CDN	12.85	14.88	19.80	9.90	8.29	6.46	9.74
<b>NGM U.S. Equity Fund \$U.S.</b>	16.71	9.19	13.36	7.58	11.99	10.37	12.66
S&P 500 \$U.S.	18.61	10.81	14.22	7.44	10.04	7.00	9.72
S&P 400 MidCap \$U.S.	17.52	11.18	14.43	9.00	11.97	10.29	12.29
S&P 600 SmallCap \$U.S.	21.05	14.07	15.60	9.27	12.34	9.34	11.79
NASDAQ Composite \$U.S.	23.85	14.52	17.36	10.46	13.32	7.95	10.19*

Source: Bloomberg "Total Return Analysis" as of Oct. 2, 2017.

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

Unit Price: \$ 51.72 CDN  
\$ 41.44 USD

Total Assets in Fund \$ 514.0 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended September 30, 2017

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	5.52	2.11	10.68	21.16
S&P / TSX \$CDN	3.06	3.68	1.99	4.45

## Annualized Rates of Return (%) for the Period Ended September 30, 2017

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	24.76	15.86	6.03	9.30	14.80	N/A
S&P / TSX \$CDN	9.18	11.67	4.54	8.29	8.06	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: \$ 20.61 CDN

Total Assets in Fund \$ 42.6 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended September 30, 2017

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.88	0.48	0.56	0.68
30 Day Treasury Bill	N/A	0.55	0.57	0.71

*\* 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 0.88% 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

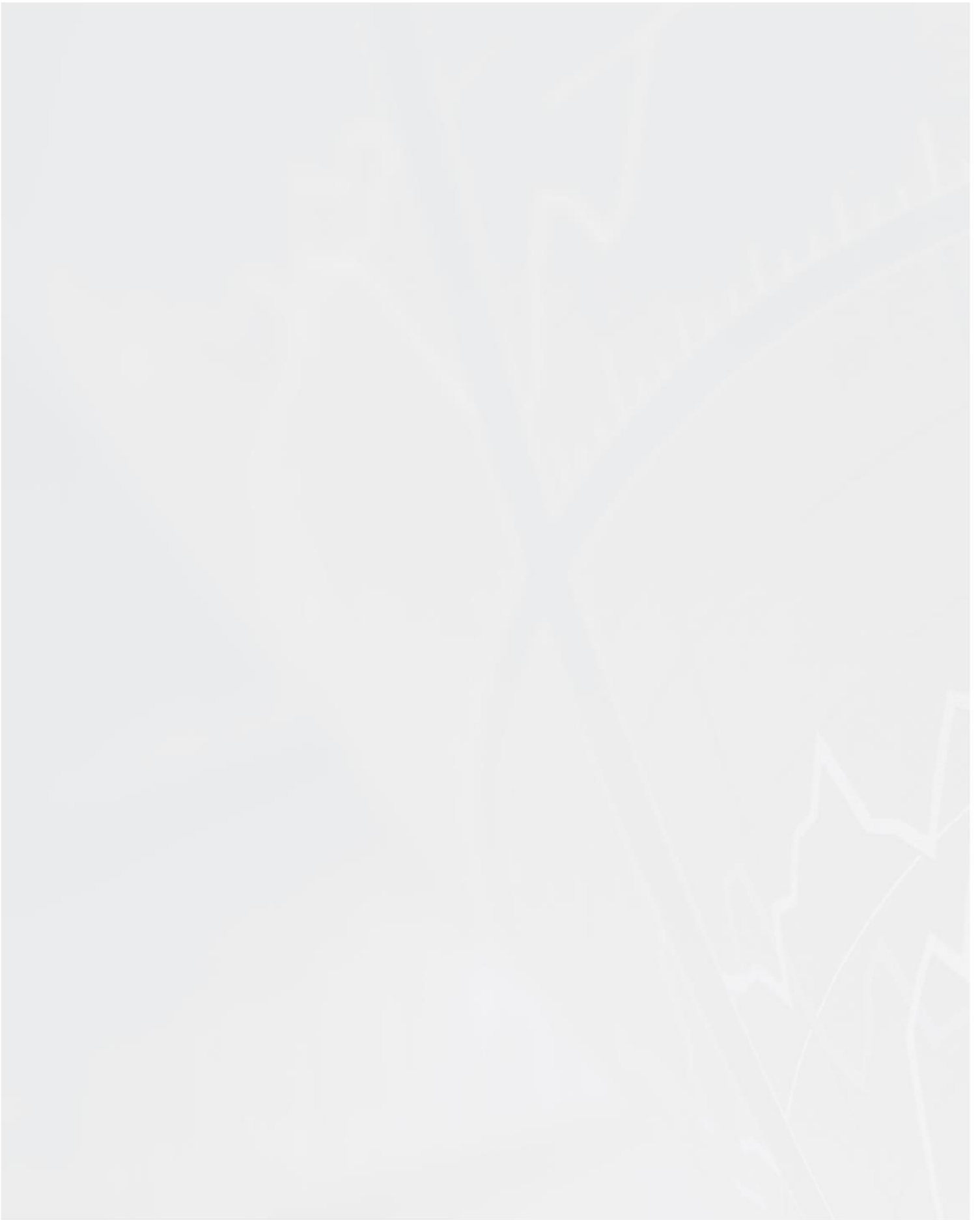
## U.S. Equity Fund – Holdings as at September 30, 2017

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	6.66
2.	Apple Inc.	6.26
3.	Applied Materials Inc.	4.64
4.	Intel Corporation	4.64
5.	Microsoft Corporation	3.98
6.	American Eagle Outfitters Inc.	3.63
7.	Abbott Laboratories	3.01
8.	Boston Scientific Corporation	2.90
9.	Gilead Sciences Inc.	2.75
10.	FedEx Corp.	2.68
11.	Amgen Inc.	2.67
12.	Texas Instruments Inc.	2.65
13.	Mohawk Industries Inc.	2.59
14.	Anthem Inc.	2.57
15.	DSP Group Inc.	2.50
16.	Cerner Corporation	2.46
17.	Johnson Controls International plc	2.46
18.	Pfizer Inc.	2.43
19.	Zimmer Biomet Holdings Inc.	2.42
20.	Itron Inc.	2.40
21.	Citrix Systems Inc.	2.16
22.	Electronic Arts Inc.	2.16
23.	SolarEdge Technologies Inc.	2.03
24.	Herman Miller Inc.	2.00
25.	Varian Medical Systems Inc.	1.91
26.	First Solar Inc.	1.90
27.	Pier 1 Imports Inc.	1.71
28.	Celgene Corp	1.65
29.	HP Inc.	1.04
30.	Varex imaging Corporation	0.91
31.	LogMeIn Inc	0.65
32.	Ethan Allen Interiors Inc.	0.59
33.	Finisar Corporation	0.55
34.	Express Scripts Holding Co	0.49
35.	Jabil Inc	0.45
36.	Applied Optoelectronics Inc.	0.42
37.	Cheesecake Factory Inc.	0.42
38.	Adient plc	0.40
39.	Ciena Corp	0.40
40.	Oclaro Inc.	0.39
Total Equities		88.56
Cash		11.44
Total Assets		100.00



## Canadian Equity Fund –Holdings as at September 30, 2017

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	13.79
2.	Avigilon Corporation	6.25
3.	Sierra Wireless Inc.	5.24
4.	MacDonald Dettwiler and Associates Ltd.	4.84
5.	Heroux-Devtek Inc.	4.65
6.	CAE Inc.	4.59
7.	ATS Automation Tooling Systems Inc.	4.28
8.	Novanta Inc.	4.21
9.	Mitel Networks Corp.	4.06
10.	Bombardier Inc., Class B	4.05
11.	Open Text Corporation	3.85
12.	EXFO Inc.	3.82
13.	Celestica Inc.	3.62
14.	Dorel Industries Inc., Class B	3.17
15.	WestJet Airlines Ltd.	3.12
16.	Magellan Aerospace Corp.	2.94
17.	Evertz Technologies Limited	2.86
18.	Hydrogenics Corp.	2.65
19.	TELUS Corporation	2.27
20.	Knight Therapeutics Inc	0.81
21.	Alterra Power Corporation	0.64
22.	exactEarth Ltd.	0.51
23.	Pixelworks Inc	0.47
Total Equities		86.72
Cash		13.28
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 & Treasury Services. 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.globefund.com](http://www.globefund.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>

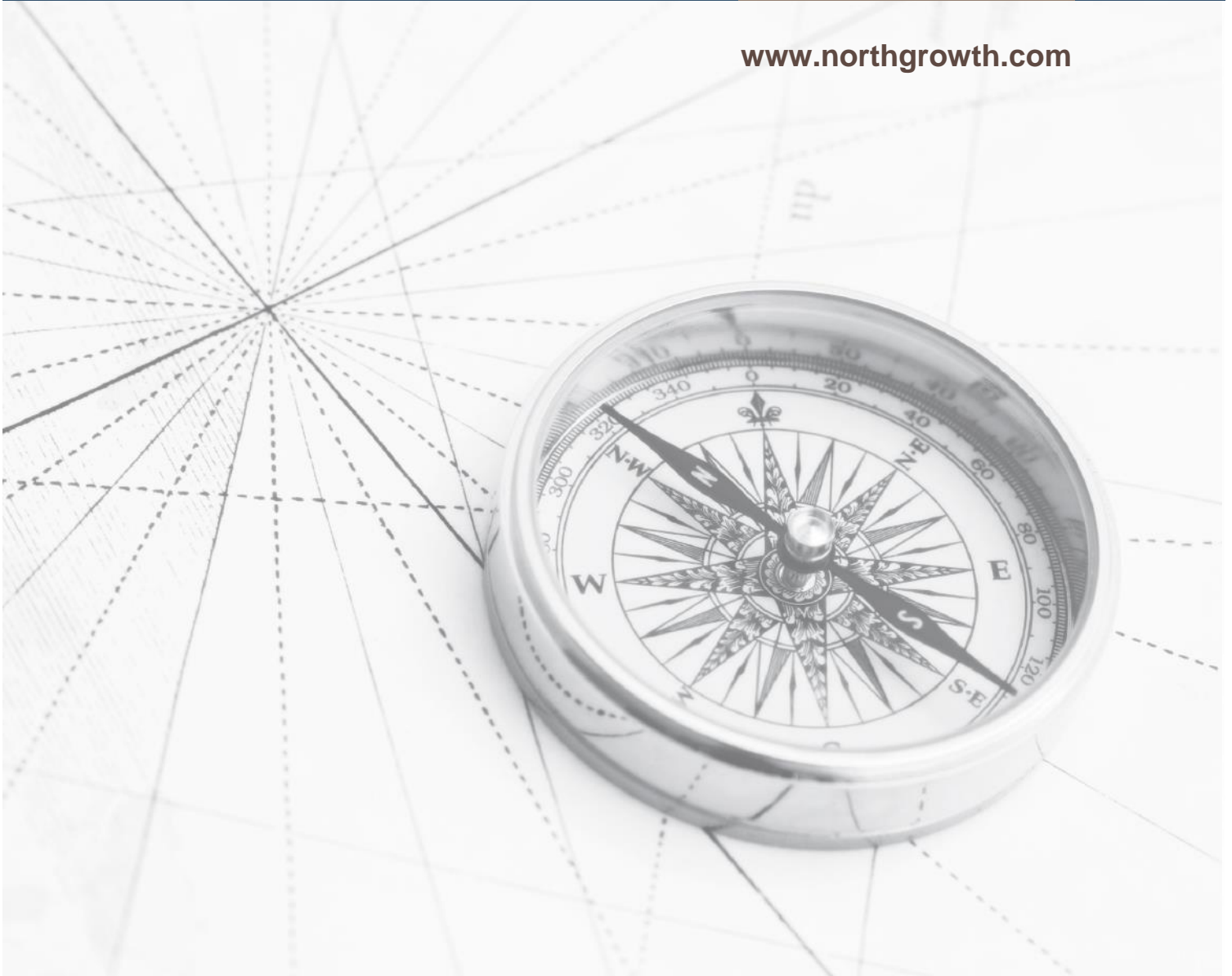
North Growth Canadian Money Market Fund

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



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

[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)