

**NOVEMBER 2017**

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

December 18, 2017

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

Throughout 2017, U.S. equities have consistently rallied, climbing to new highs month after month. November was no exception as the major stock market indices continued to advance and maintain their upward trajectory.

## Third Quarter Earnings Finalized

Noteworthy during November was Cisco's earnings report of its latest quarter ended October 28<sup>th</sup>. Both revenues and earnings came in above analysts' estimates, and the company's guidance for a surprising gain in sales this upcoming quarter resulted in the approximate 10% jump in Cisco's share price during the latter half of the month. Importantly, the dramatic growth in the company's deferred revenue, driven by subscription-based and software offers, validates Cisco's strong business fundamentals and strategic competitive position.

Cisco's earnings release capped yet another solid reporting season. We have been pleased with virtually all the results of the companies in the North Growth U.S. Equity Fund to date.

With 92% of the portfolio having reported so far, profits on a weighted-average basis in the July-to-September quarter increased 12.6% over a year ago versus estimates of 5.4% growth. And 76% of the portfolio's earnings results have exceeded analysts' estimates.

For the market in general, earnings during the latest quarter increased 6.3% year-over-year while sales grew 5.8%. Similar to the first and second quarters of 2017, the energy sector reported the highest earnings growth out of all eleven S&P 500 sectors in the third quarter due to depressed earnings of the energy companies in the year-ago period.

However, the largest contributor to S&P 500 profits as a whole came from the information technology sector, led by the semiconductor and semiconductor equipment industry. Excluding the information technology earnings, the profit growth rate for the remainder of the S&P 500 would fall to 2.9%.

According to FactSet, with over 95% of the companies in the S&P 500 having reported earnings as of November 24<sup>th</sup>, 74% of the reporting companies delivered positive earnings surprises while 66% beat sales estimates.

As illustrated, the earnings growth profile of the U.S. Fund continues to compare favourably against the overall market.



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

## **Our View**

As U.S. equities have continued to rally this year, we have become more cautious in our outlook. Despite strong corporate earnings growth against a positive macroeconomic backdrop, the stock markets are broadly expensive. Near historical-high equity valuations, in combination with unprecedented levels of political uncertainty and geopolitical risks as well as extremely bullish market sentiment, suggest an elevated degree of investor complacency.

In line with our increasingly cautious bias throughout the 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 North Growth U.S. Equity Fund and North Growth Canadian Equity Fund this year has realized substantial capital gains, and accordingly, the annual distribution is higher than those over the past several years.

## **Fund Distributions**

This year, Friday, December 15<sup>th</sup> was the distribution date for the U.S. Equity Fund and Canadian Equity Fund. The distribution for the U.S. Fund is approximately 16% of the current unit price or \$8.76 per unit (consisting of \$0.53 income and \$8.23 capital gains). For the Canadian Fund, the distribution is around 7% of the current unit price or \$1.54 per unit (all capital gains).

Unitholders of the North Growth Funds can expect to receive their T-3 tax slips by mail near the end of January.

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

In November, the North Growth U.S. Equity Fund appreciated 1.8%. The Fund underperformed all the indices we regularly track: the S&P 500 which gained 3.1%, the S&P 400 Midcap and the S&P 600 SmallCap which were up 3.7% and 3.5% respectively, and the NASDAQ Composite which advanced 2.3%. Currency did not have any meaningful impact on the monthly returns for the month.

## **Canadian Equity Fund**

The North Growth Canadian Equity Fund gained 0.4% in November, slightly behind the 0.5% return of the S&P/TSX Composite Index. Year-to-date, the Fund continues to outperform with its 31.1% appreciation versus the S&P/TSX's advance of 7.8%.

## **Happy Holidays!**

All of us at North Growth wish you and yours a very happy holiday season! Merry Christmas and all the best for 2018!

# North Growth U.S. Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	1.78	10.67	7.03	18.22
S&P 500 in \$CDN	3.03	10.67	5.86	15.65
<b>NGM U.S. Equity Fund \$U.S.</b>	1.82	7.65	12.11	23.17
S&P 500 \$U.S.	3.07	7.65	10.89	20.49
S&P 400 MidCap \$U.S.	3.68	10.17	11.21	15.99
S&P 600 SmallCap \$U.S.	3.52	12.56	14.05	13.83
NASDAQ Composite \$U.S.	2.34	7.21	11.50	29.07

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

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	20.44	14.28	21.45	11.29	9.33	10.40	12.93
S&P 500 \$CDN	17.92	15.40	21.93	11.08	7.99	6.69	10.05
<b>NGM U.S. Equity Fund \$U.S.</b>	25.50	9.82	15.29	8.50	10.76	10.95	12.77
S&P 500 \$U.S.	22.87	10.91	15.74	8.30	9.40	7.23	9.89
S&P 400 MidCap \$U.S.	18.53	11.36	15.46	9.92	11.68	10.78	12.47
S&P 600 SmallCap \$U.S.	17.66	13.25	16.87	10.40	12.05	9.86	11.90
NASDAQ Composite \$U.S.	30.62	14.17	19.50	11.26	12.01	8.54	10.37*

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

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

Unit Price: \$ 55.82 CDN  
\$ 43.31 USD

Total Assets in Fund \$ 549.1 Million CDN

# North Growth Canadian Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	0.41	14.19	12.14	31.12
S&P / TSX \$CDN	0.47	6.37	6.21	7.81

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

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	29.92	17.64	7.82	10.03	16.56	N/A
S&P / TSX \$CDN	9.60	12.49	6.01	7.78	8.79	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: \$ 22.31 CDN

Total Assets in Fund \$ 46.4 Million CDN

# North Growth Canadian Money Market Fund

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

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	0.94	0.63	0.58	0.70
30 Day Treasury Bill	N/A	0.63	0.56	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 0.94 % which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

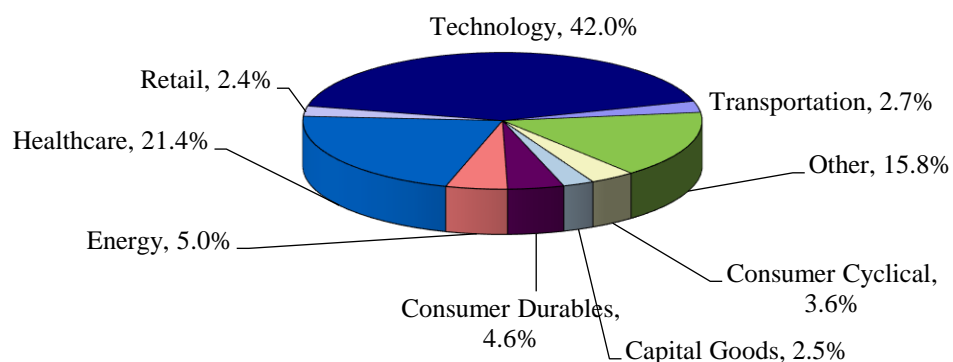
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at November 30, 2017

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	6.59
2.	Apple Inc.	5.43
3.	Intel Corporation	5.28
4.	Microsoft Corporation	4.35
5.	Applied Materials Inc.	3.70
6.	American Eagle Outfitters Inc.	3.64
7.	FedEx Corp.	2.66
8.	Abbott Laboratories	2.57
9.	SolarEdge Technologies Inc.	2.51
10.	First Solar Inc.	2.48
Top 10		39.21
Total Equities		84.17
Cash		15.83
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at November 30, 2017

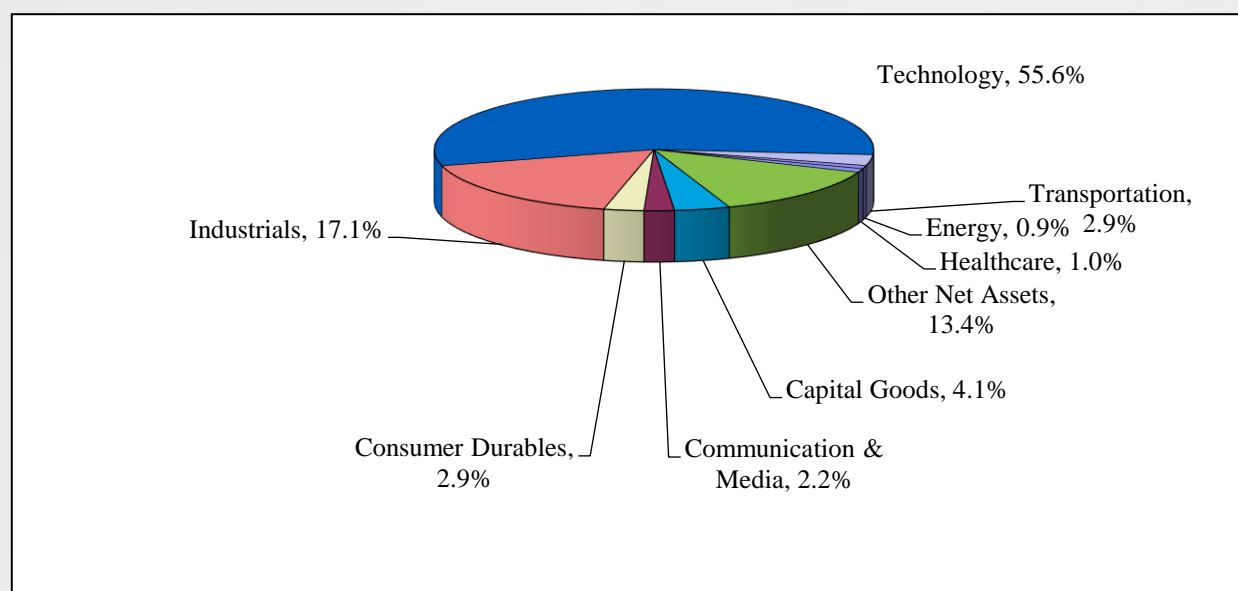




## Canadian Equity Fund – Top 10 Holdings as at November 30, 2017

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	13.33
2.	Avigilon Corporation	6.66
3.	Sierra Wireless Inc.	5.24
4.	Maxar Technologies Ltd	5.09
5.	Bombardier Inc., Class B	4.93
6.	EXFO Inc.	4.55
7.	Heroux-Devtek Inc.	4.55
8.	CAE Inc.	4.40
9.	ATS Automation Tooling Systems Inc.	4.06
10.	Open Text Corporation	3.70
Top 10		55.61
Total Equities		86.63
Cash		13.37
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at November 30, 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

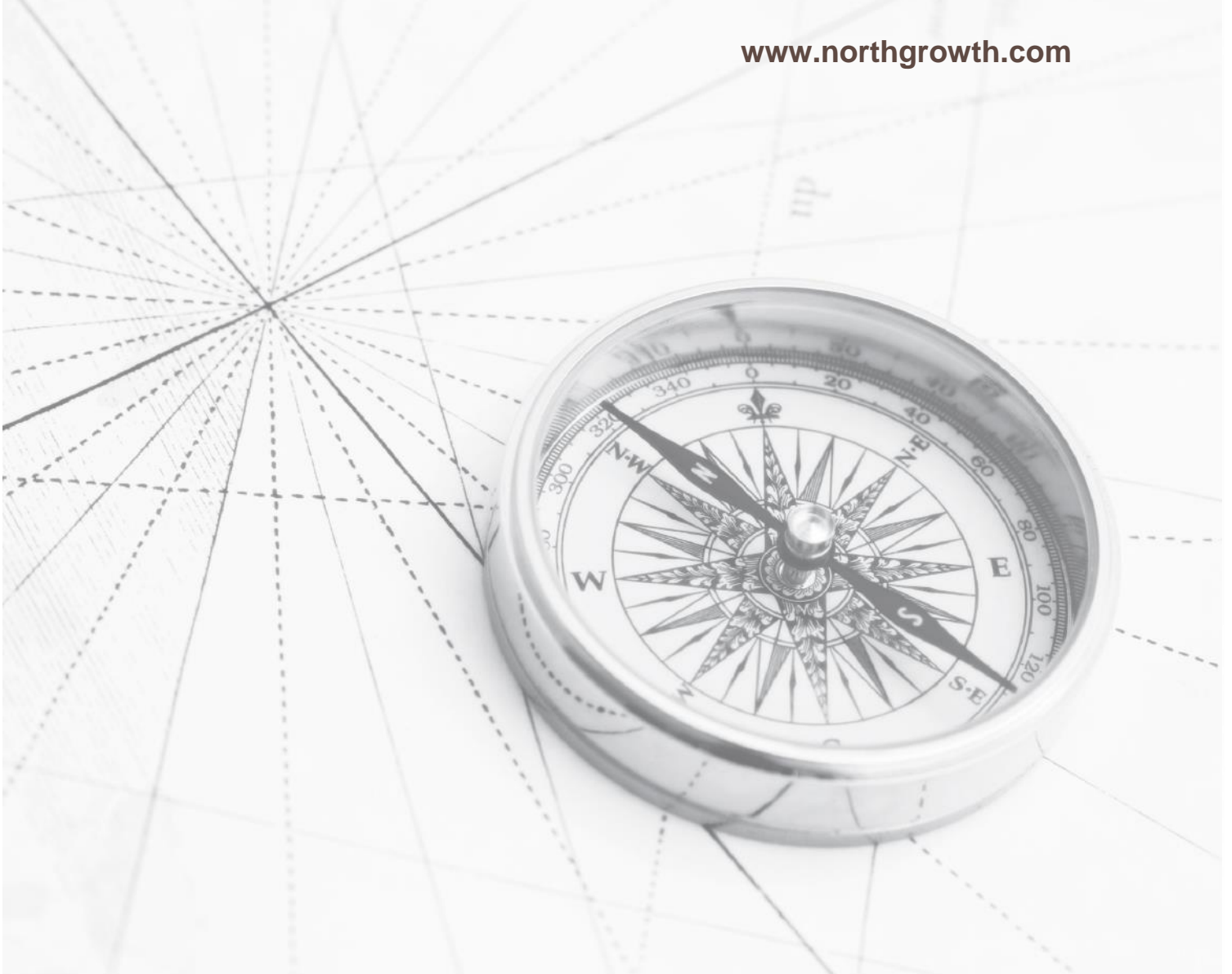
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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