



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

**JANUARY 2018**

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

February 13, 2018

# MANAGEMENT'S MONTHLY REPORT ON FUND PERFORMANCE

## North Growth Funds

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# Fund Performance Update

U.S. equities rang in 2018 by roaring to new highs in January, only to see the gains wiped out by the steep declines in the markets during the early days of this month. Strong economic data, optimism over the Tax Cuts and Jobs Act, combined with a positive start to the earnings reporting season, fueled the ongoing stock rally that began the year.

## Our View

As we detailed in our recently-published Annual Report, we maintain a cautious outlook for U.S. equities in 2018. Despite solid corporate earnings results and favourable macroeconomic conditions, equity valuations are near all-time highs and the stock markets are broadly expensive. Without even considering the dysfunctional state of Washington as well as heightened geopolitical tensions, the currently high level of equity valuations relative to earnings present a most significant risk to the markets.

Not only is the U.S. market cycle extended in terms of duration—the S&P 500 index has appreciated in every one of the past 9 years—but also, more importantly, in terms of being at the upper-end of the historical range of price/earnings (P/E) ratios. Of late, investors have shown increasing enthusiasm for stocks, as indicated by the extreme bullish sentiment readings of the Investors Intelligence Bull/Bear ratio and the record \$102 billion that went into global equity mutual funds and exchange-traded funds (ETFs) in January.

Continuing on our portfolio repositioning initiated last year, we seek to actively manage the U.S. Fund's risk lower by putting more emphasis on the value or "reasonable price" aspect of our investment discipline. Since the beginning of 2017, we have reduced the average size of our portfolio holdings while also increasing the number of names in the Fund. As the sales have outweighed the purchases, the Fund's cash balance has been gradually accumulating and is now at over 17%.

As always, we believe stock selection is the key to outperformance, and focus our efforts on the analysis of individual stocks that adhere to our long term "growth at a reasonable price" investment philosophy.

## T3, T4RIF and T4RSP Tax Slips

T3, T4RIF and T4RSP slips were mailed to unit holders on Monday, January 29<sup>th</sup>. Please contact our CFO, Rachid Nayel, at [rachid@northgrowth.com](mailto:rachid@northgrowth.com) if you have not received your tax slips.

## **RRSP Reminder**

We are in RRSP season. The deadline for contributions for the 2017 tax year is Thursday, March 1<sup>st</sup>. As a reminder, North Growth Management offers both in-house RSP and RIF accounts free of any additional fees.

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

In January, the North Growth U.S. Equity Fund advanced 3.2%. While the Fund underperformed the S&P 500 which gained 5.7% and the NASDAQ Composite which was up 7.4%, it beat the smaller capitalization indices we regularly track. For the month, the S&P 400 MidCap and S&P 600 SmallCap rose 2.9% and 2.5% respectively. A stronger Canadian currency reduced the Fund's January return to 1.1% in Canadian dollars versus the S&P 500's 3.6% Canadian dollar monthly return.

## **Canadian Equity Fund**

In a break with the U.S. stock markets, Canadian equities got off to a weak start this year. The North Growth Canadian Equity Fund declined 2.5% in January, lagging behind the 1.4% depreciation of the S&P/TSX Composite Index.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended January 31, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	1.13	1.04	12.06	1.13
S&P 500 in \$CDN	3.60	5.05	13.65	3.60
<b>NGM U.S. Equity Fund \$U.S.</b>	3.20	5.97	13.81	3.20
S&P 500 \$U.S.	5.73	10.18	15.43	5.73
S&P 400 MidCap \$U.S.	2.87	6.89	11.84	2.87
S&P 600 SmallCap \$U.S.	2.53	5.59	11.86	2.53
NASDAQ Composite \$U.S.	7.40	10.46	17.38	7.40

## Annualized Rates of Return (%) for the Period Ended January 31, 2018

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	18.52	11.06	19.70	11.96	10.15	10.37	12.81
S&P 500 \$CDN	19.42	13.39	20.86	12.03	8.97	6.53	10.06
<b>NGM U.S. Equity Fund \$U.S.</b>	25.45	12.31	14.79	9.72	11.72	11.31	12.86
S&P 500 \$U.S.	26.41	14.66	15.91	9.78	10.53	7.44	10.11
S&P 400 MidCap \$U.S.	17.61	12.62	14.06	10.98	12.44	10.84	12.52
S&P 600 SmallCap \$U.S.	16.56	14.28	15.27	11.26	12.72	9.97	11.91
NASDAQ Composite \$U.S.	33.50	18.37	20.23	13.31	13.43	8.89	10.62*

Source: Bloomberg "Total Return Analysis" as of February 1, 2018.

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

Unit Price: \$ 46.77 CDN  
\$ 38.04 USD

Total Assets in Fund \$ 510.6 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended January 31, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	-2.49	-2.98	8.72	-2.49
S&P / TSX \$CDN	-1.39	0.25	6.85	-1.39

## Annualized Rates of Return (%) for the Period Ended January 31, 2018

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	20.04	16.62	6.08	6.98	12.63	N/A
S&P / TSX \$CDN	6.67	14.80	5.99	6.97	7.85	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: \$ 20.07 CDN

Total Assets in Fund \$ 45.1 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended January 31, 2018

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	1.10	0.72	0.59	0.70
30 Day Treasury Bill	N/A	0.68	0.56	0.70

*\* 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 1.10 % which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

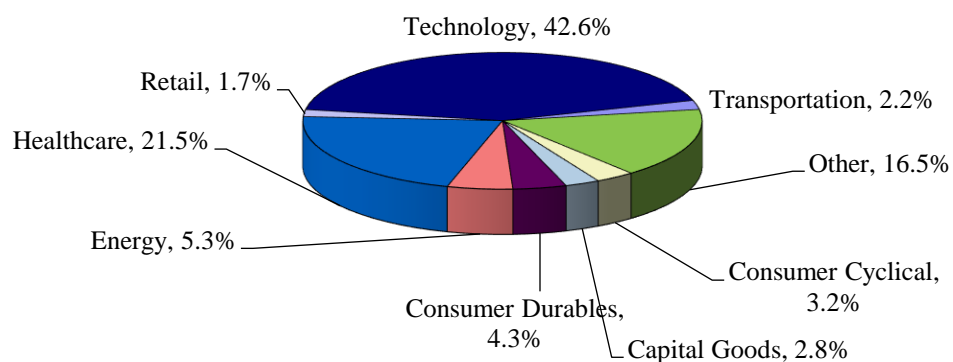
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at January 31, 2018

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	6.34
2.	Apple Inc.	5.15
3.	Intel Corporation	5.06
4.	Applied Materials Inc.	3.86
5.	Microsoft Corporation	3.76
6.	American Eagle Outfitters Inc.	3.17
7.	First Solar Inc.	2.76
8.	Gilead Sciences Inc.	2.55
9.	SolarEdge Technologies Inc.	2.54
10.	DSP Group Inc.	2.50
Top 10		37.69
Total Equities		83.48
Cash		16.52
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at January 31, 2018

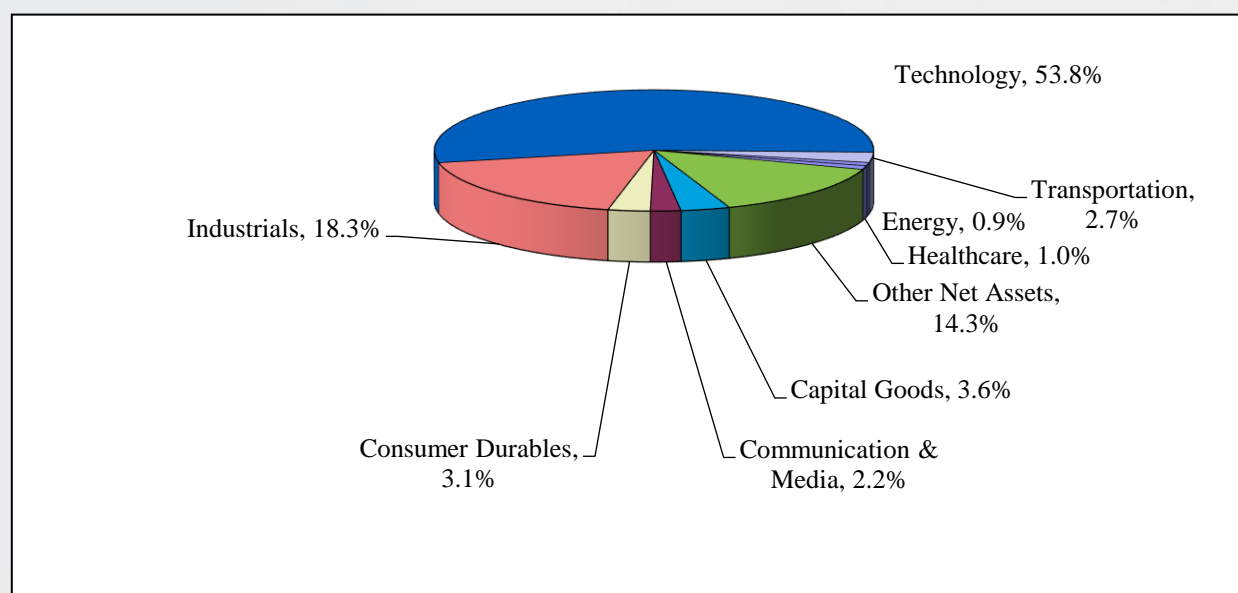




## Canadian Equity Fund – Top 10 Holdings as at January 31, 2018

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	11.67
2.	Avigilon Corporation	7.55
3.	Bombardier Inc., Class B	5.89
4.	Maxar Technologies Ltd	5.00
5.	Sierra Wireless Inc.	4.95
6.	Heroux-Devtek Inc.	4.77
7.	EXFO Inc.	4.69
8.	CAE Inc.	4.51
9.	Mitel Networks Corp.	4.07
10.	Open Text Corporation	3.81
Top 10		56.91
Total Equities		85.69
Cash		14.31
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at January 31, 2018



# 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

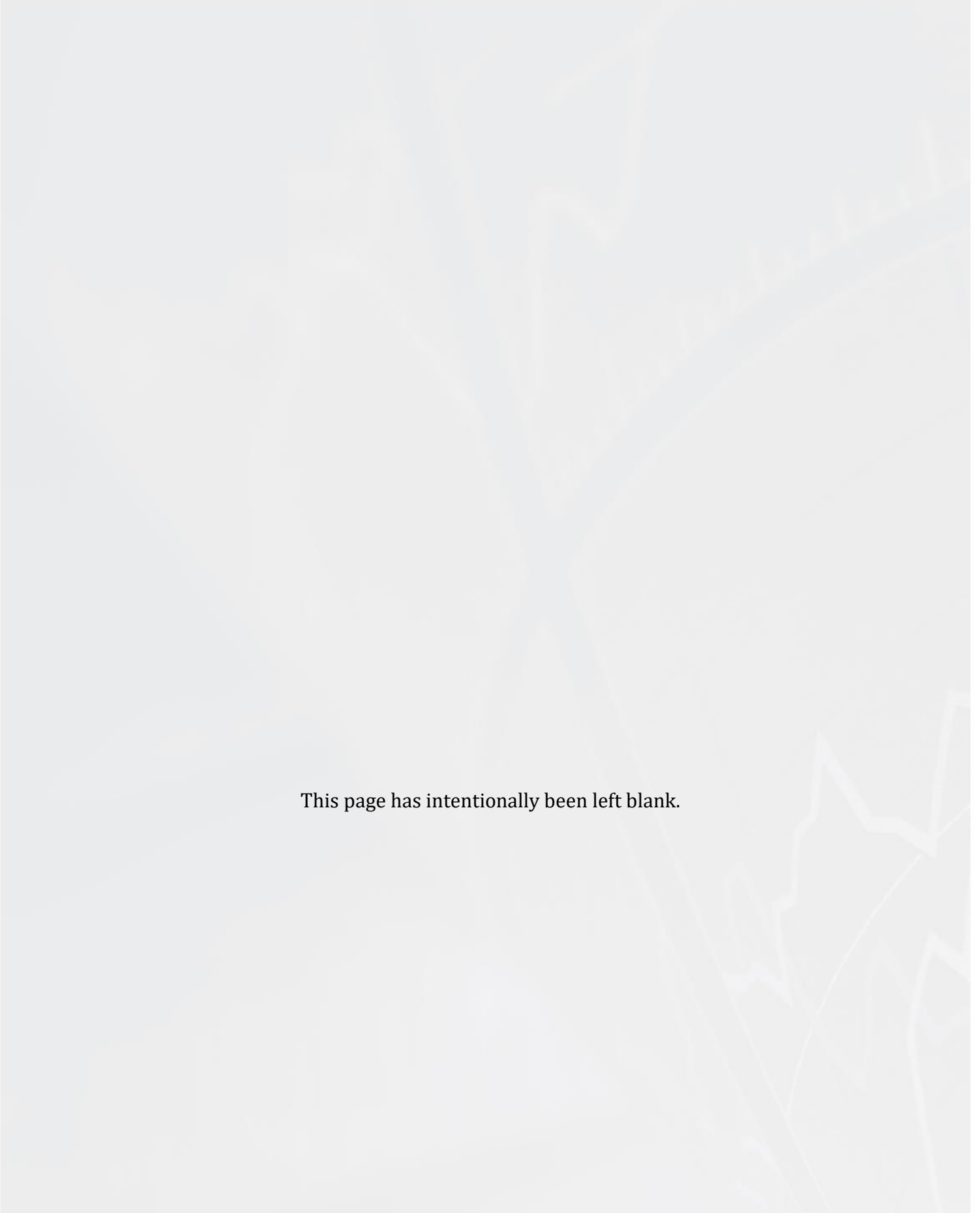
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=52033&cid=4008>

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

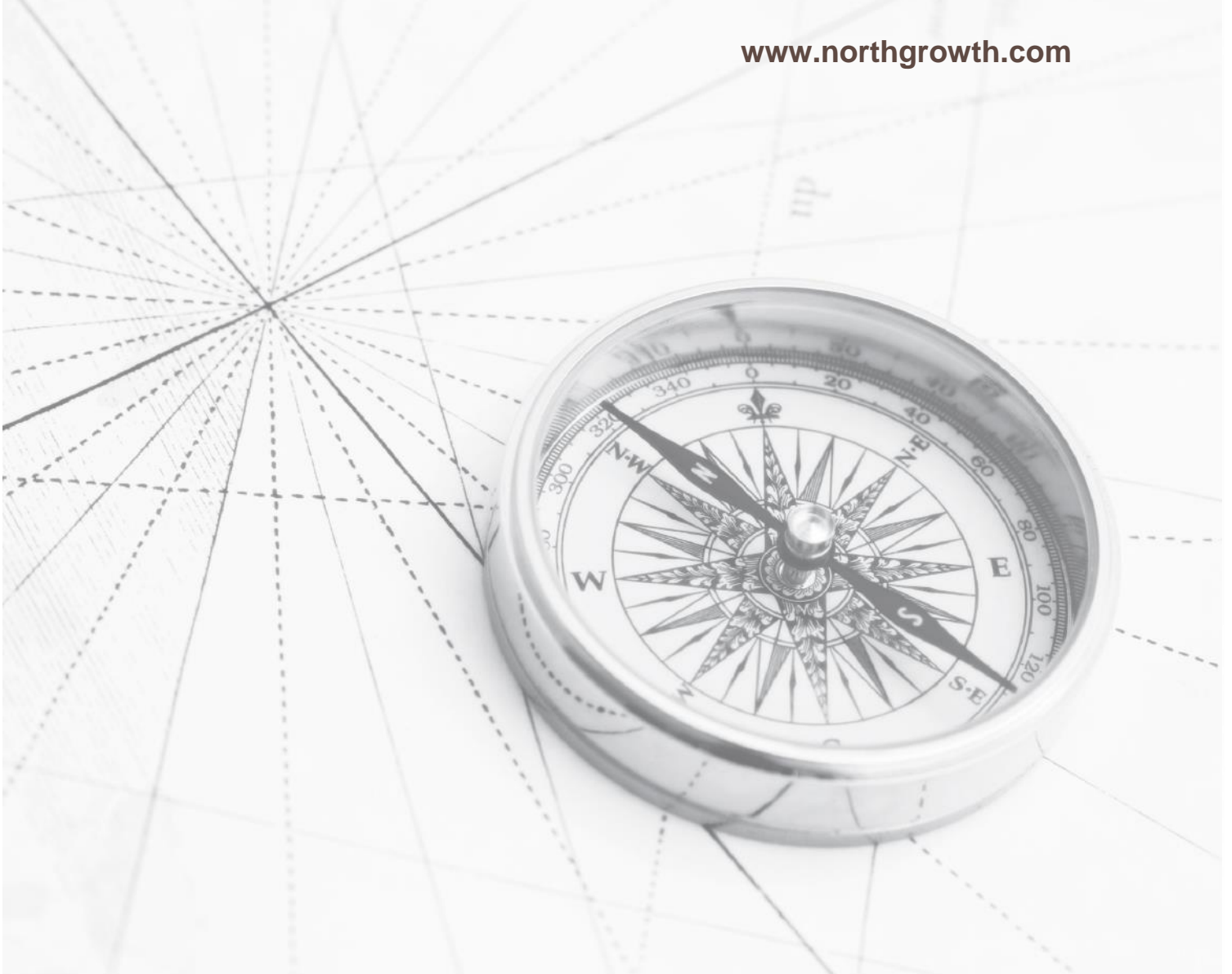
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/summary/?id=53072&cid=4008>



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[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)