



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

# **FEBRUARY 2018**

## **MONTHLY REPORT**

March 12, 2018

# FEBRUARY 2018 MONTHLY REPORT

## North Growth Funds

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# Fund Performance Update

Following an extended year-long period of calm and steadily rising U.S. equity markets, stocks fell dramatically during the early part of February with the return of volatility. Although a decent rebound ensued over the latter half of the month as the S&P 500 climbed 5.1% from its February 8<sup>th</sup> low, U.S. equity indices, with the exception of the NASDAQ, nonetheless finished February down around 4% for the month.

## Fourth Quarter Earnings

The earnings reporting season for the fourth quarter of 2017 is now largely behind us. As anticipated, corporate profits came in above expectations and accelerated during the final quarter of 2017.

Noteworthy during February was Cisco's earnings report of its latest quarter ended January 27<sup>th</sup>. Both revenues and earnings beat analysts' estimates, and more importantly, investors cheered the company's return to sales growth in 10 quarters as strong demand was evident in its campus switching, applications and security products. Cisco's transition toward a recurring software model continues to take hold, and given yet another positive reaction in the share price to the solid results as well as guidance for sustained growth, it appears that investor perceptions about the company are improving. We remain upbeat on Cisco's robust business fundamentals and strategic competitive position, and are encouraged by others' increasing conviction in the North Growth U.S. Equity Fund's largest holding.

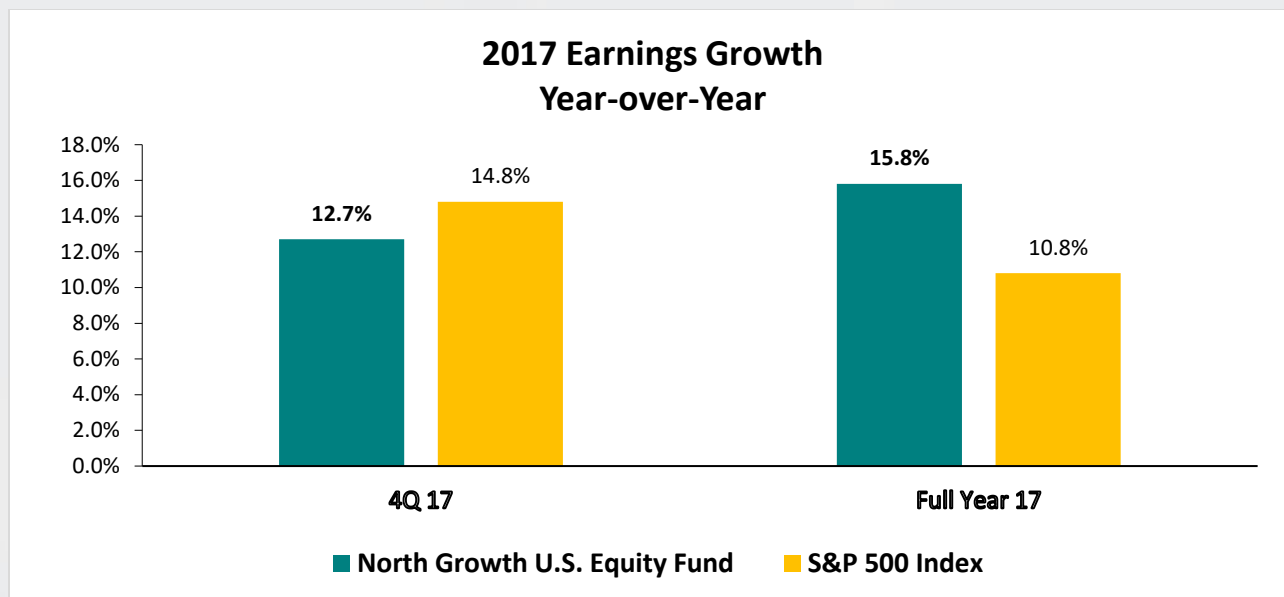
Cisco's earnings release capped a strong reporting period overall. We have been pleased with virtually all the results of the companies in the Fund to date.

With nearly 90% of the portfolio having reported so far, profits on a weighted-average basis in the September-to-December quarter increased 12.7% over a year ago, versus estimates of 4.9% growth. And 87% of the portfolio's earnings results have exceeded analysts' estimates.

For the market in general, earnings during the latest quarter increased 14.8% year-over-year while sales grew 8.2%. Similar to the first, second and third quarters of 2017, the energy sector reported the highest earnings growth out of all eleven S&P 500 sectors in the fourth quarter due to a comparison to unusually depressed earnings in the year-ago period. The materials sector followed with the second highest year-over-year earnings growth rate.

According to FactSet, with 97% of the companies in the S&P 500 having reported earnings as of March 2<sup>nd</sup>, 74% of the reporting companies delivered positive earnings surprises while 77% beat sales estimates.

Though the U.S. Fund's earnings growth rate was slightly below that of the S&P 500 Index this past quarter, it has been more consistent over the year and for 2017 as a whole the profit growth profile of the Fund has been exceptionally favourable relative to the overall market.



Source for S&P 500 Index: FactSet Earnings Insight

## Our View

We maintain our cautious outlook for U.S. equities. Strong corporate earnings growth against a positive macroeconomic backdrop are not new developments; they are reflected by the rich stock valuations that continue to be at historical highs. The equity markets are broadly expensive, and moreover, do not appear to be adequately factoring in the unprecedented levels of political uncertainty, geopolitical risks and additional recent risk of global trade disruptions.

As always, we maintain focused on the analysis of individual stocks, adhering diligently to our “growth at a reasonable price” philosophy.

## U.S. Equity Fund

In February, the North Growth U.S. Equity Fund remained essentially flat, dropping a mere 0.1%. The Fund outperformed the S&P 500 which declined 3.7%, as well as the smaller capitalization indices, the S&P 400 MidCap and S&P 600 SmallCap which were down 4.4% and 3.9% respectively. Of the indices we regularly track, the NASDAQ Composite was the star performer for the month, appreciating 1.7%. A weaker Canadian currency in February boosted the Fund’s return to positive 4.1% versus the S&P 500 which was up 0.4% in Canadian dollars.

## Canadian Equity Fund

Concerns over growing U.S. trade protectionism not only contributed to a weaker Canadian dollar in February, but also declining Canadian equities. The S&P/TSX Composite depreciated 3.0% last month. The North Growth Canadian Equity Fund meanwhile gained 2.4%, bringing the Fund’s year-to-date return to -0.2% versus the S&P/TSX’s -4.4% return.

# North Growth U.S. Equity Fund

## Short Term Rates of Return (%) for the Period Ended February 28, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund in \$CDN</b>	4.13	3.37	14.41	5.30
S&P 500 in \$CDN	0.36	2.33	13.25	3.97
<b>NGM U.S. Equity Fund \$U.S.</b>	-0.06	4.01	11.97	3.13
S&P 500 \$U.S.	-3.69	2.96	10.84	1.83
S&P 400 MidCap \$U.S.	-4.43	-1.47	8.55	-1.69
S&P 600 SmallCap \$U.S.	-3.87	-1.95	10.36	-1.44
NASDAQ Composite \$U.S.	1.73	6.06	13.71	5.54

## Annualized Rates of Return (%) for the Period Ended February 28, 2018

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	16.31	10.66	19.47	13.15	10.69	10.24	12.95
S&P 500 \$CDN	12.94	12.04	19.81	12.66	9.28	6.30	10.04
<b>NGM U.S. Equity Fund \$U.S.</b>	20.59	9.77	14.41	10.21	11.78	10.83	12.82
S&P 500 \$U.S.	17.10	11.14	14.73	9.73	10.36	6.86	9.91
S&P 400 MidCap \$U.S.	9.53	9.10	12.81	10.69	12.28	10.15	12.27
S&P 600 SmallCap \$U.S.	10.29	10.61	14.04	11.17	12.67	9.28	11.69
NASDAQ Composite \$U.S.	26.25	14.96	19.62	13.68	13.20	8.30	10.51*

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

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

Unit Price: \$ 48.70 CDN  
\$ 38.02 USD

Total Assets in Fund \$ 532.1 Million CDN

# North Growth Canadian Equity Fund

## Short Term Rates of Return (%) for the Period Ended February 28, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	2.40	-1.06	12.98	-0.15
S&P / TSX \$CDN	-3.02	-3.23	2.94	-4.37

## Annualized Rates of Return (%) for the Period Ended February 28, 2018

	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
<b>NGM Canadian Equity Fund</b>	20.78	19.42	4.45	6.10	12.37	N/A
S&P / TSX \$CDN	3.23	12.79	3.47	5.14	6.92	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: \$ 20.55 CDN

Total Assets in Fund \$ 46.4 Million CDN

# North Growth Canadian Money Market Fund

## Annualized Rates of Return (%) for the Period Ended February 28, 2018

	*Current Yield	1 Year	3 Years	5 Years
<b>NGM Canadian Money Market Fund</b>	1.19	0.77	0.61	0.71
30 Day Treasury Bill	N/A	0.74	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 1.19 % which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

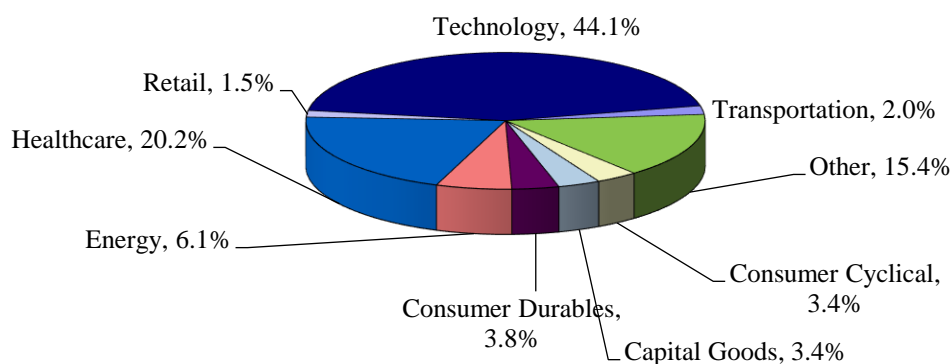
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

# Equity Fund Holdings and Composition

## U.S. Equity Fund – Top 10 Holdings as at February 28, 2018

Ranking	Security	% of Net Assets
1.	Cisco Systems Inc.	6.84
2.	Apple Inc.	5.48
3.	Intel Corporation	5.18
4.	Applied Materials Inc.	4.14
5.	Microsoft Corporation	3.71
6.	SolarEdge Technologies Inc.	3.53
7.	American Eagle Outfitters Inc.	3.39
8.	First Solar Inc.	2.58
9.	Gilead Sciences Inc.	2.39
10.	Amgen Inc.	2.36
Top 10		39.60
Total Equities		84.65
Cash		15.35
Total Assets		100.00

## U.S. Equity Fund – Sector Mix as at February 28, 2018

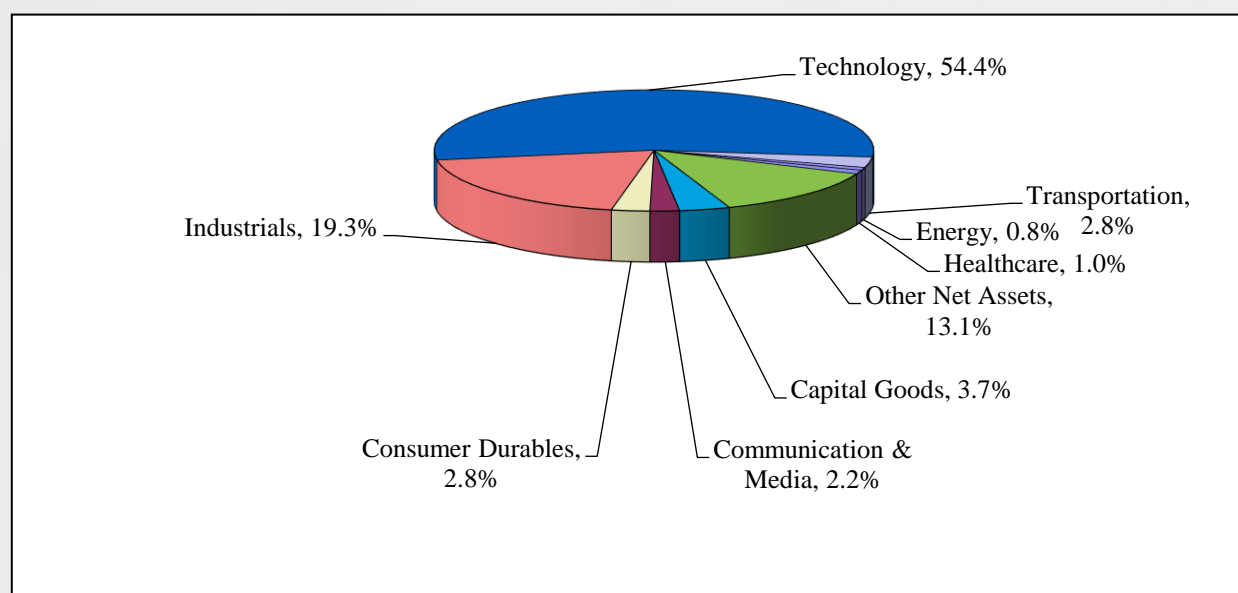




## Canadian Equity Fund – Top 10 Holdings as at February 28, 2018

Ranking	Security	% of Net Assets
1.	Ballard Power Systems Inc.	11.99
2.	Avigilon Corporation	8.63
3.	Bombardier Inc., Class B	6.68
4.	Heroux-Devtek Inc.	5.01
5.	Open Text Corporation	4.93
6.	Sierra Wireless Inc.	4.60
7.	EXFO Inc.	4.59
8.	CAE Inc.	4.57
9.	Maxar Technologies Ltd	3.77
10.	Mitel Networks Corp.	3.75
Top 10		58.52
Total Equities		86.94
Cash		13.06
Total Assets		100.00

## Canadian Equity Fund – Sector Mix as at February 28, 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

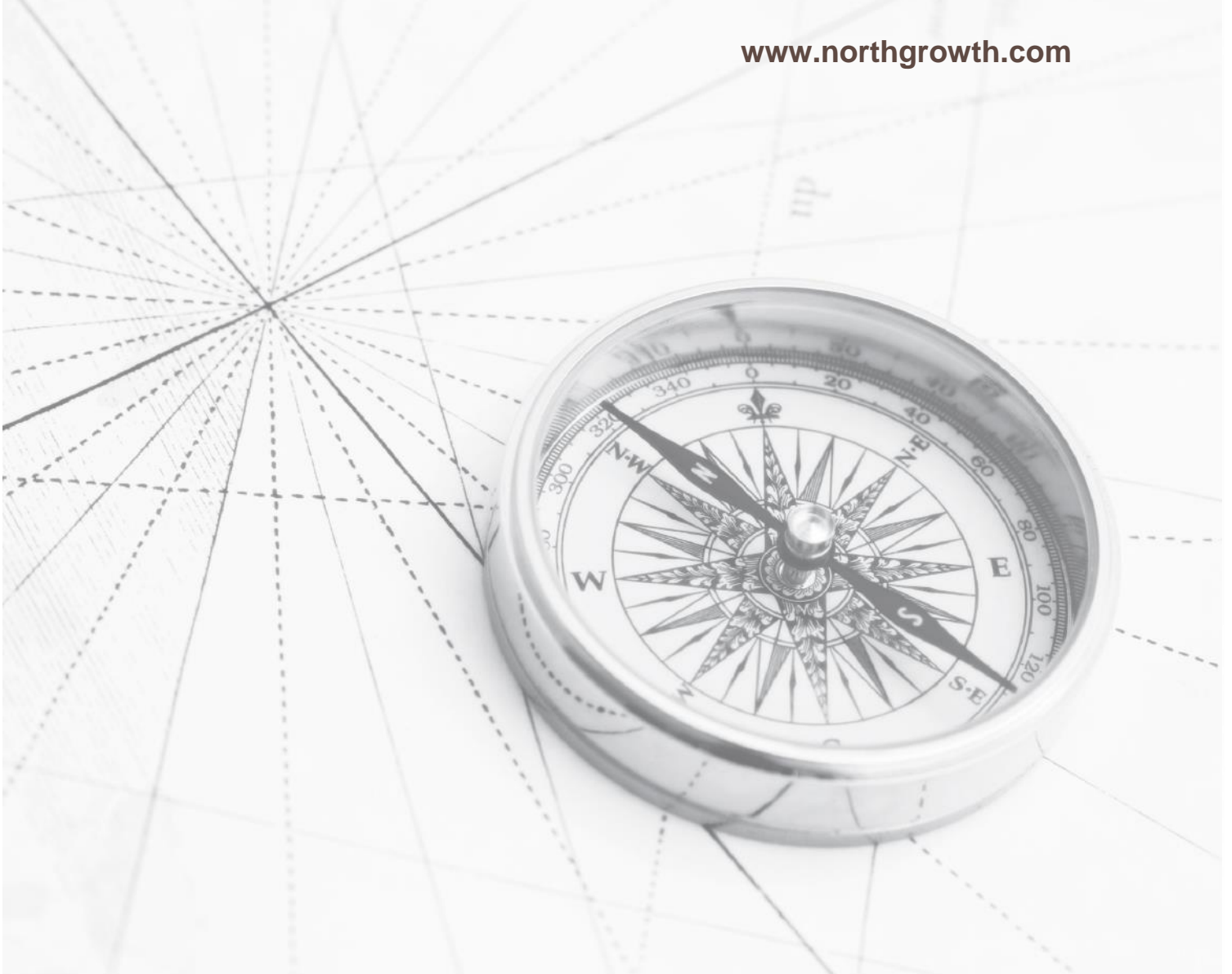
Please visit **[www.northgrowth.com](http://www.northgrowth.com)** to view the Fund's daily prices or to be added to our e-mail list to receive daily notification of the Fund's prices.



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