

# MAY 2018 MONTHLY REPORT

JUNE 12, 2018



## Fund Performance Update

With the conclusion of an exceptionally strong first quarter earnings reporting period, U.S. equities climbed steadily in May. Geopolitical and trade tensions, U.S. political turmoil, as well as rising interest rates continue to be ongoing concerns against a solid macroeconomic backdrop; however, they were not the primary focus of investors last month.

### FIRST QUARTER EARNINGS

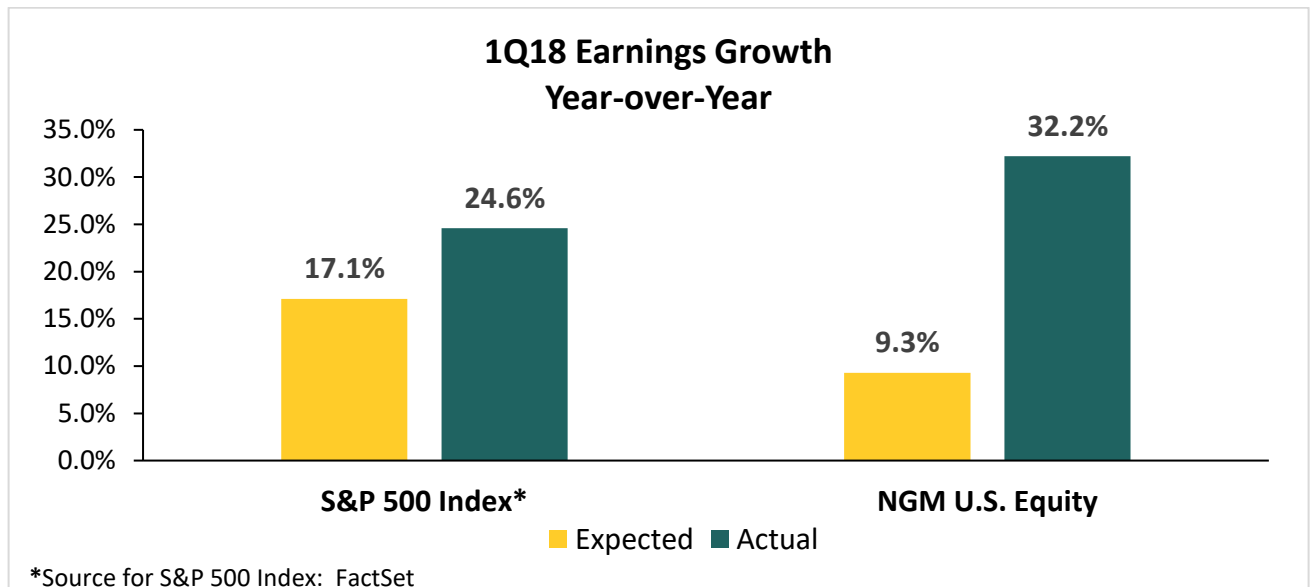
From a fundamental perspective, U.S. corporate earnings for the first quarter of 2018 were spectacular. We have been pleased with virtually all the results of the companies in the North Growth U.S. Equity Fund to date.

With 92% of the portfolio having reported so far, profits on a weighted-average basis in the January-to-March quarter increased 32.2% over a year ago versus estimates of 9.3% growth. Over 80% of the portfolio's earnings results have exceeded analysts' estimates.

For the market in general, earnings during the first quarter increased 24.6% year-over-year while sales grew 8.5%. The S&P 500 Index recorded the highest quarterly earnings growth rate since the third quarter of 2010, with all eleven sectors reporting year-over-year earnings growth. Nine sectors reported double-digit increases in profit growth, led by the Energy, Materials, Information Technology and Financials sectors. As has been the case since 2017, the unusually high growth rate for the Energy sector was due to a comparison to markedly low earnings in the year-ago period. In addition, the sector benefitted from a significant year-over-year gain in oil prices.

According to FactSet, with nearly all the companies in the S&P 500 having reported earnings as of May 25th, 78% of the reporting companies delivered positive earnings surprises while 77% beat sales estimates. At the sector level, the Information Technology and Health Care sectors had the highest percentages of companies reporting earnings above estimates.

The earnings growth profile of the U.S. Fund continues to compare favourably against the overall market, and growth for the Fund in the latest quarter was broad-based.



## OUR VIEW

We maintain our cautious outlook for U.S. equities. Although the current macroeconomic environment continues to be positive, and with accelerated corporate earnings growth the ascent in stock valuations has levelled off, market multiples nonetheless remain near the high end of their historical range. Unprecedented levels of political uncertainty, geopolitical risks and risks of trade disruptions are beginning to garner recognition by the financial markets as they pose real, significant challenges for equity investments.

Continuing on our portfolio repositioning initiated last year, we are actively managing the U.S. Fund's risk lower by putting more emphasis on the value or "reasonable price" aspect of our investment discipline. We continue to reduce the average size of the portfolio holdings as well as increase the number of holdings in the Fund. As always, our focus is on stock selection and individual stock analysis, practicing diligently our "growth at a reasonable price" philosophy.

## U.S. EQUITY FUND

In May, the North Growth U.S. Equity Fund gained 2.5%. The Fund slightly outperformed the S&P 500 which increased 2.4%, yet lagged the other indices we follow. The smaller capitalization S&P 400 MidCap and S&P 600 SmallCap indices were up 4.1% and 6.5% respectively, while the NASDAQ Composite advanced 5.5%. A slightly weaker Canadian currency last month boosted the Fund's Canadian-dollar return to 3.4% versus the S&P 500's Canadian-dollar performance of 3.3%.

## CANADIAN EQUITY FUND

The North Growth Canadian Equity Fund appreciated 1.5% in May, underperforming the S&P/TSX Composite which gained 3.1%. Year-to-date, the Fund is up 0.2%, almost even with the S&P/TSX Composite's return of 0.3%.

## North Growth U.S. Equity Fund

### SHORT TERM RATES OF RETURN (%) FOR THE PERIOD ENDED MAY 31, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>3.37</b>	<b>2.89</b>	<b>6.36</b>	<b>8.34</b>
S&P 500 in \$CDN	3.30	1.28	3.64	5.30
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>2.48</b>	<b>1.78</b>	<b>5.86</b>	<b>4.97</b>
S&P 500 \$U.S.	2.41	0.19	3.16	2.02
S&P 400 MidCap \$U.S.	4.13	4.82	3.28	3.05
S&P 600 SmallCap \$U.S.	6.46	9.75	7.60	8.17
NASDAQ Composite \$U.S.	5.50	2.63	8.86	8.32

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED MAY 31, 2018

	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	<b>13.83</b>	<b>11.69</b>	<b>17.46</b>	<b>12.80</b>	<b>10.11</b>	<b>10.34</b>	<b>12.94</b>
S&P 500 \$CDN	9.71	12.47	18.11	12.07	8.95	6.02	9.99
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>18.68</b>	<b>10.20</b>	<b>12.36</b>	<b>9.84</b>	<b>10.52</b>	<b>10.99</b>	<b>12.76</b>
S&P 500 \$U.S.	14.38	10.97	12.98	9.14	9.35	6.64	9.82
S&P 400 MidCap \$U.S.	14.86	10.25	12.17	9.93	11.45	10.32	12.35
S&P 600 SmallCap \$U.S.	22.72	13.80	14.31	11.24	12.14	9.85	11.98
NASDAQ Composite \$U.S.	21.39	15.02	18.06	12.77	12.06	8.42	*10.49

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

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

The inception of the Fund: October 13, 1992.

Unit Price	\$ 50.11 CDN
	\$ 38.70 CDN
Total Assets in Fund	\$ 544.8 Million CDN

## North Growth Canadian Equity Fund

### SHORT TERM RATES OF RETURN (%) FOR THE PERIOD ENDED MAY 31, 2018

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>1.49</b>	<b>0.34</b>	<b>-0.73</b>	<b>0.19</b>
S&P / TSX \$CDN	3.12	4.83	1.45	0.25

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED MAY 31, 2018

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
<b>NGM Canadian Equity Fund</b>	<b>11.32</b>	<b>14.56</b>	<b>5.91</b>	<b>5.39</b>	<b>10.98</b>	<b>*N/A</b>
S&P / TSX \$CDN	7.75	9.99	5.36	5.47	8.05	3.92

\* The Canadian Equity Fund became a reporting issuer on June 15, 2012. It is not permitted to publish performance data prior to this date it became a reporting issuer.

Unit Price \$ 20.62CDN

Total Assets in Fund \$ 47.3 Million CDN

## North Growth Canadian Money Market Fund

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED MAY 31, 2018

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.33</b>	<b>0.96</b>	<b>0.65</b>	<b>0.73</b>	<b>0.79</b>	<b>1.56</b>
30 Day Treasury Bill	N/A	0.87	0.62	0.72	0.79	1.58

\* 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 1.28% 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.

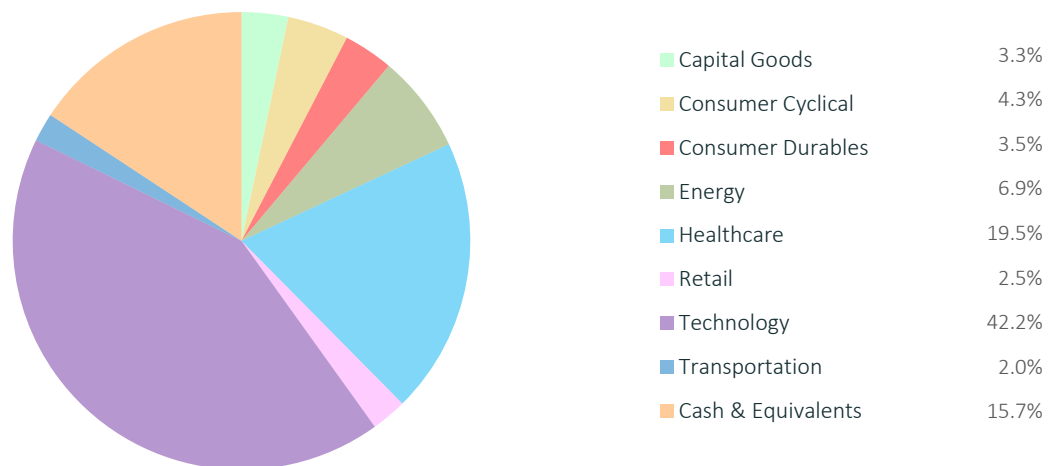


## Equity Fund Holdings and Composition

### U.S. EQUITY FUND — TOP 10 HOLDINGS AS AT MAY 31, 2018

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.86
2	Intel Corporation	4.94
3	Apple Inc.	4.88
4	American Eagle Outfitters Inc.	3.86
5	Applied Materials Inc.	3.38
6	SolarEdge Technologies Inc.	3.22
7	First Solar Inc.	2.51
8	Boston Scientific Corporation	2.43
9	DSP Group Inc.	2.41
10	Applied Optoelectronics Inc.	2.38
<b>Top 10</b>		<b>35.87</b>
<b>Total Equities</b>		<b>84.27</b>
<b>Cash</b>		<b>15.73</b>
<b>Total Assets</b>		<b>100.00</b>

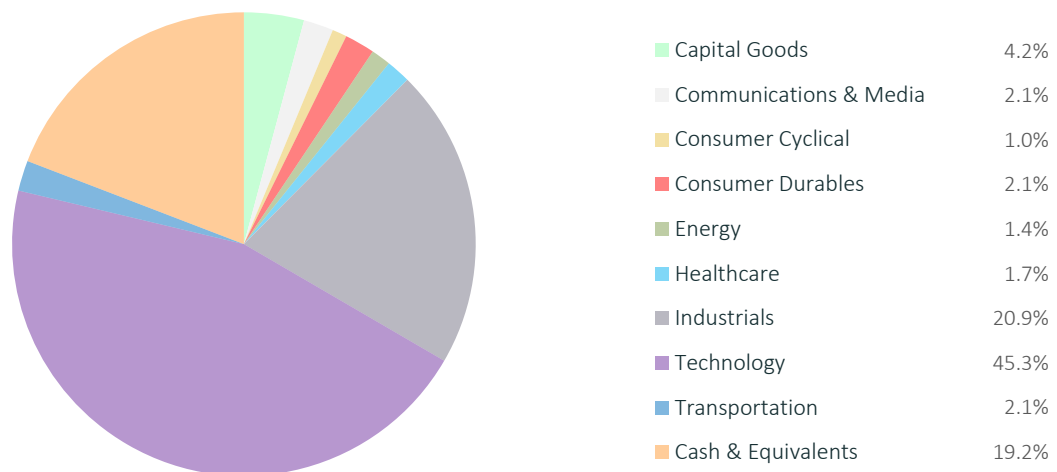
### U.S. EQUITY FUND — SECTOR MIX AS AT MAY 31, 2018



## CANADIAN EQUITY FUND — TOP 10 HOLDINGS AS AT MAY 31, 2018

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	9.45
2	Bombardier Inc., Class B	7.88
3	Heroux-Devtek Inc.	5.31
4	CAE Inc.	5.18
5	Mitel Networks Corp.	5.00
6	Open Text Corporation	4.86
7	Maxar Technologies Ltd.	4.77
8	Sierra Wireless Inc.	4.69
9	ATS Automation Tooling Systems Inc.	4.18
10	EXFO Inc.	3.60
<b>Top 10</b>		<b>54.92</b>
<b>Total Equities</b>		<b>80.83</b>
<b>Cash</b>		<b>19.17</b>
<b>Total Assets</b>		<b>100.00</b>

## CANADIAN EQUITY FUND — SECTOR MIX AS AT MAY 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 & Treasury Services. For security reasons, instructions can only be accepted by mail or by fax to:

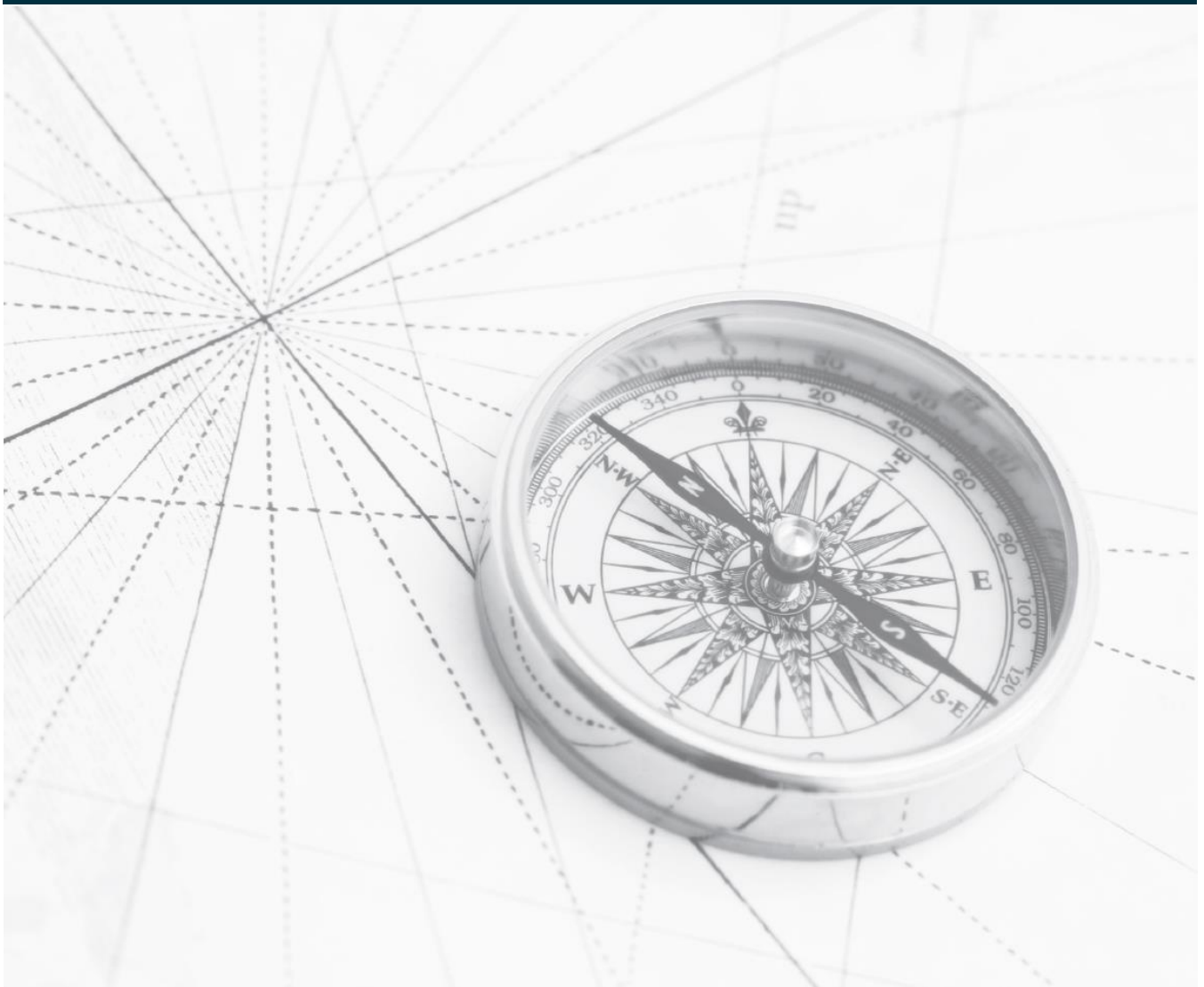
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### WHERE TO FIND NGM FUND PRICES

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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