

# AUGUST 2018 MONTHLY REPORT

SEPT. 14, 2018



## Fund Performance Update

Despite an increasingly messy political environment in Washington, ongoing trade disputes and weakness in emerging markets, U.S. equities climbed to new highs on subdued trading activity during August. Strong U.S. economic data and corporate earnings growth provided the fuel for the stock market gains over the summer.

### SECOND QUARTER EARNINGS

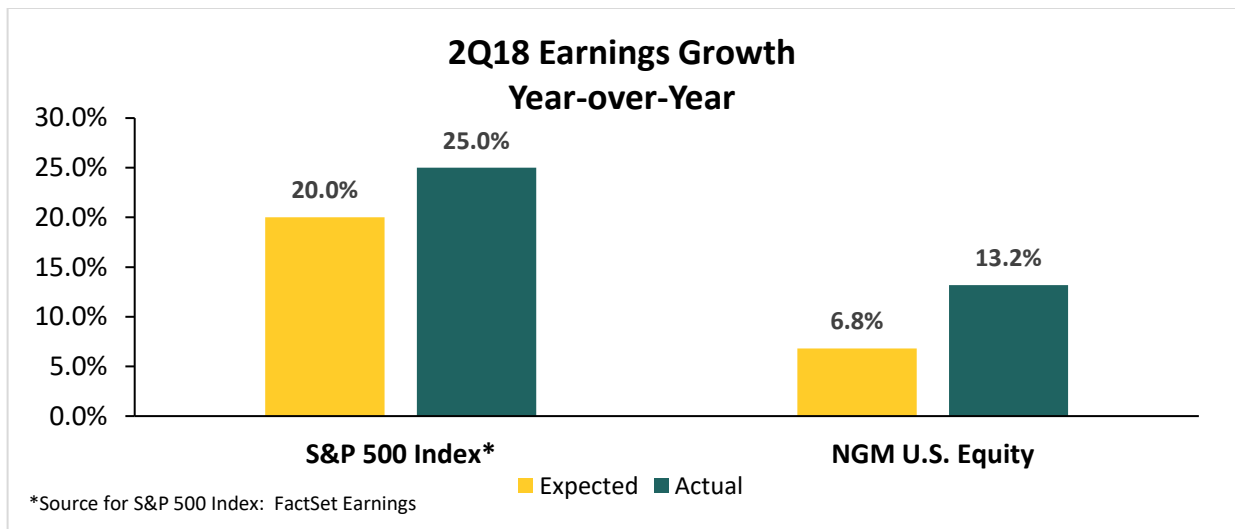
From a fundamental perspective, robust second quarter earnings have been the highlight of the past two months. We have been pleased with the vast majority of the results of the companies in the North Growth U.S. Equity Fund to date.

With over 90% of the portfolio having reported so far, profits on a weighted-average basis in the April-to-June quarter increased 13.2% over a year ago versus estimates of 6.8% growth. And 85% of the portfolio's earnings results have exceeded analysts' estimates.

For the market in general, earnings during the latest quarter increased 25.0% year-over-year while sales grew 10.1%. 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. Ten sectors reported double-digit increases in profit growth, led by the Energy, Materials and Information Technology sectors. The unusually high 125% growth rate for the Energy sector was due to both a significant year-over-year gain in oil prices and, as has been the case since 2017, a comparison to unusually low earnings in the year-ago period.

According to FactSet, with nearly all the companies in the S&P 500 having reported earnings as of August 31<sup>st</sup>, 80% of the reporting companies delivered positive earnings surprises while 72% beat sales estimates. At the sector level, the Telecom Services, Health Care and Information Technology sectors had the highest percentages of companies reporting earnings above estimates.

Although below the S&P 500 growth rate this quarter, the earnings growth profile of the U.S. Fund continues to be consistently solid and broad-based.



## OUR VIEW

We maintain our cautious outlook for U.S. equities. The positive macroeconomic backdrop and strong corporate earnings growth seem to be adequately reflected by the generally high market multiples. Meanwhile, the threats of trade wars, increasing political uncertainty and geopolitical tensions, as well as contagion from the recent rout in emerging markets present significant challenges for the global economy and equity investments.

As growth continues to be expensive and risky, we are emphasizing the value or “reasonable price” aspect of our discipline and striving to keep the overall price/earnings (P/E) multiple of the Fund in check, below-market. Reducing the average size of the portfolio holdings while increasing the number of holdings in the U.S. Fund, we are actively managing the Fund’s risk lower. Our process of re-positioning the portfolio to be more value-oriented and lower risk is ongoing and gradual.

## TAX INFORMATION UPDATE

The continual repositioning of the North Growth U.S. Equity Fund and North Growth Canadian Equity Fund has realized substantial capital gains; accordingly, we anticipate that the annual distributions for 2018, payable on December 14<sup>th</sup>, will remain at historically elevated levels.

We currently estimate that the distributions for the Funds this year, comprised almost entirely of capital gains, will be equivalent to or greater than those in 2017.

## U.S. EQUITY FUND

In August, the North Growth U.S. Equity Fund appreciated 2.8%. The Fund underperformed all the indices we regularly follow: the S&P 500 which gained 3.3%, the smaller capitalization S&P 400 MidCap and S&P 600 SmallCap which advanced 3.2% and 4.8% respectively, and the NASDAQ Composite which increased 5.9%.

## CANADIAN EQUITY FUND

The North Growth Canadian Equity Fund appreciated 2.1% in August, substantially outperforming the S&P/TSX Composite which declined 0.8%. The Fund's performance was boosted by its largest holding, Ballard Power Systems, which soared near the end of August on the announcement of a strategic collaboration with Weichai Power Co that includes Weichai taking a 20% equity interest in Ballard at a premium to the market.

## NORTH GROWTH U.S. EQUITY FUND

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>3.06</b>	<b>5.51</b>	<b>8.55</b>	<b>14.31</b>
S&P 500 in \$CDN	3.56	8.65	10.04	14.41
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>2.76</b>	<b>4.64</b>	<b>6.50</b>	<b>9.84</b>
S&P 500 \$U.S.	3.26	7.76	7.96	9.94
S&P 400 MidCap \$U.S.	3.19	5.46	10.54	8.68
S&P 600 SmallCap \$U.S.	4.83	9.37	20.03	18.30
NASDAQ Composite \$U.S.	5.85	9.23	12.11	18.32

## ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED AUGUST 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>24.19</b>	<b>14.79</b>	<b>18.18</b>	<b>13.42</b>	<b>9.56</b>	<b>11.72</b>	<b>13.04</b>
S&P 500 \$CDN	24.62	15.81	19.55	13.17	9.10	6.74	10.24
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>19.25</b>	<b>15.09</b>	<b>13.20</b>	<b>11.10</b>	<b>10.00</b>	<b>12.74</b>	<b>12.83</b>
S&P 500 \$U.S.	19.66	16.11	14.52	10.86	9.53	7.72	10.04
S&P 400 MidCap \$U.S.	20.00	14.84	13.30	11.35	11.16	11.95	12.46
S&P 600 SmallCap \$U.S.	32.46	19.28	15.44	12.44	11.88	11.96	12.24
NASDAQ Composite \$U.S.	27.50	20.74	19.15	14.47	11.77	9.83	*10.76

Source: Bloomberg "Total Return Analysis" as of Sept.4, 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	\$ 52.86 CDN
	\$ 40.49 CDN
Total Assets in Fund	\$ 572.0 Million CDN

## North Growth Canadian Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>2.12</b>	<b>2.31</b>	<b>2.66</b>	<b>2.50</b>
S&P / TSX \$CDN	-0.82	2.02	6.94	2.27

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

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	10 Yrs
<b>NGM Canadian Equity Fund</b>	<b>15.98</b>	<b>15.79</b>	<b>11.20</b>	<b>5.85</b>	<b>10.68</b>	<b>14.10</b>	<b>n/a</b>
S&P / TSX \$CDN	10.09	8.65	8.67	4.04	8.30	8.46	4.75

\* 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 \$ 21.09CDN

Total Assets in Fund \$ 48.7 Million CDN

## North Growth Canadian Money Market Fund

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

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.50</b>	<b>1.16</b>	<b>0.73</b>	<b>0.76</b>	<b>0.75</b>	<b>1.53</b>
30 Day Treasury Bill	N/A	1.02	0.67	0.73	0.76	1.55

\* 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 1.50% 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.

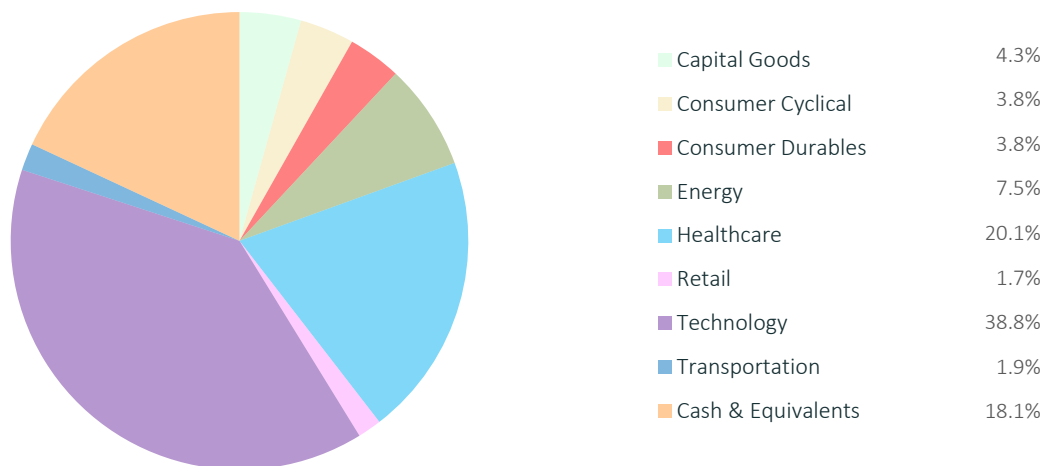


## Equity Fund Holdings and Composition

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

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.44
2	Apple Inc.	4.34
3	Intel Corporation	3.73
4	SolarEdge Technologies Inc.	3.66
5	American Eagle Outfitters Inc.	2.93
6	Applied Materials Inc.	2.75
7	Pfizer Inc.	2.68
8	First Solar Inc.	2.63
9	Gilead Sciences Inc.	2.44
10	Amgen Inc.	2.43
<b>Top 10</b>		<b>33.03</b>
<b>Total Equities</b>		<b>81.93</b>
<b>Cash</b>		<b>18.07</b>
<b>Total Assets</b>		<b>100.00</b>

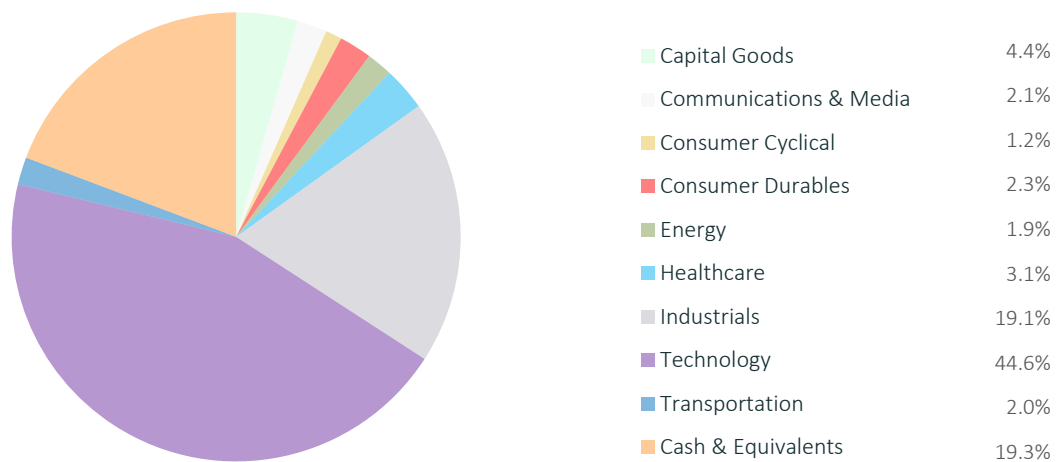
### U.S. EQUITY FUND — SECTOR MIX AS AT AUGUST 31, 2018



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

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	12.08
2	Bombardier Inc., Class B	6.75
3	Sierra Wireless Inc.	5.76
4	EXFO Inc.	5.65
5	Open Text Corporation	5.34
6	Heroux-Devtek Inc.	4.99
7	Maxar Technologies Ltd.	4.85
8	CAE Inc.	4.80
9	ATS Automation Tooling Systems Inc.	4.43
10	Celestica Inc.	3.29
<b>Top 10</b>		<b>57.94</b>
<b>Total Equities</b>		<b>80.74</b>
<b>Cash</b>		<b>19.26</b>
<b>Total Assets</b>		<b>100.00</b>

## CANADIAN EQUITY FUND — SECTOR MIX AS AT AUGUST 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:

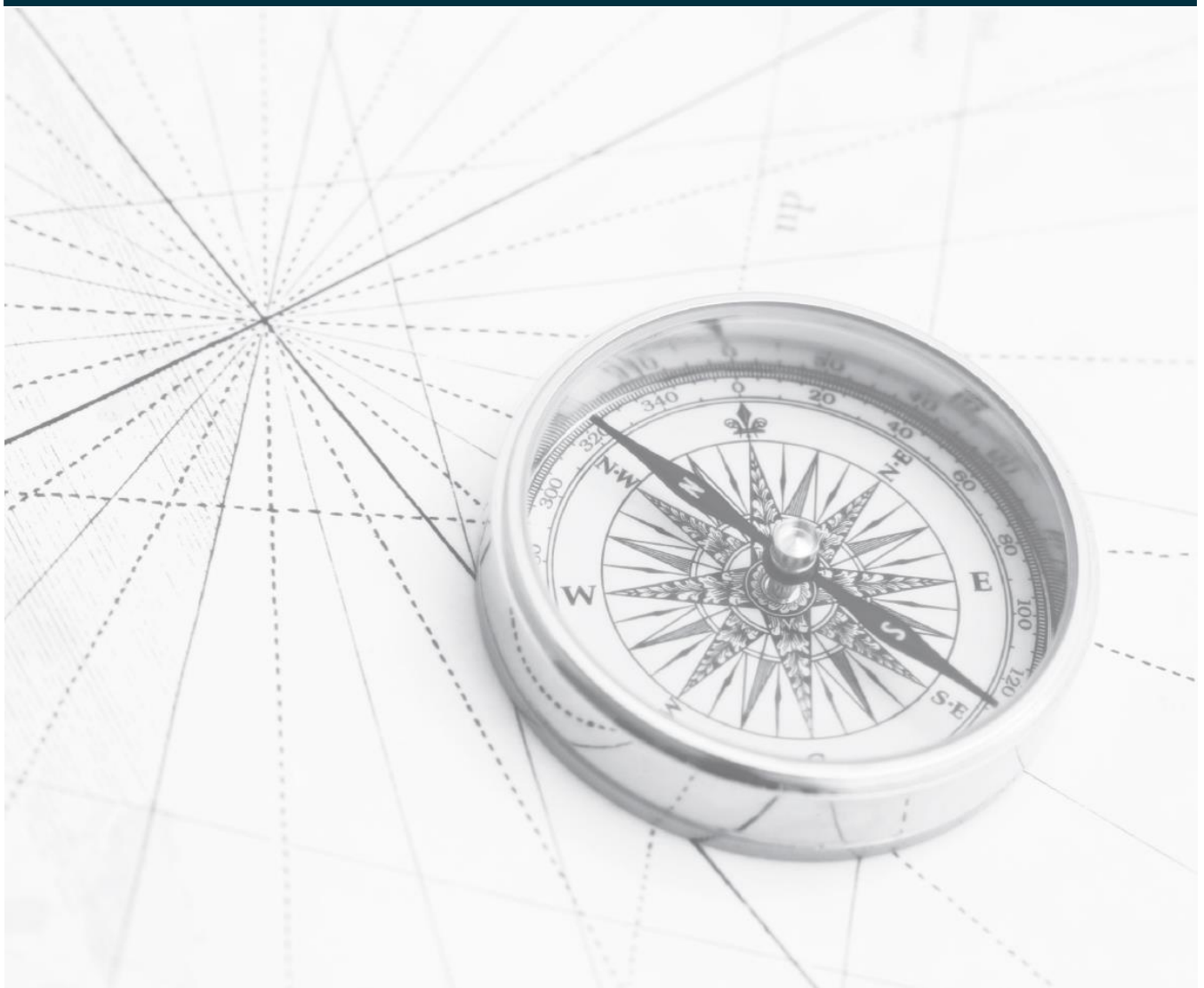
**North Growth Management Ltd.**

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.



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

**northgrowth.com**