

# OCTOBER 2018 MONTHLY REPORT

NOV. 13, 2018



## Fund Performance Update

October 2018 marked the worst month for U.S. equities in seven years. Across the board, the major market indices declined sharply as concerns about the vulnerability of stocks to rising interest rates, anxiety over the U.S. midterm elections and political climate, as well as uncertainty from the U.S.-China trade conflict overshadowed generally strong third quarter earnings.

### A DIFFICULT MONTH...

Since late October, the earnings reporting season for the June-to-September quarter has been fully underway. By and large, corporate earnings growth has remained robust. However, to date the market has been less likely to reward positive earnings surprises and more likely to punish less-than-expected earnings results or even just hints of possibly slowing profit growth.

Against a continued solid macroeconomic backdrop, there is mounting concern that corporate profits may be near their peak. Investors' expectations have become elevated for many companies especially following the run-up in equities during the past year. And for a select number of stocks with seemingly outsized growth prospects, valuations are extraordinarily high. Compounding the fear of slowing earnings momentum, rising interest rates, increasing dysfunction in U.S. politics and the ongoing trade dispute between the United States and China contributed to the pullback in stocks last month.

### OUR VIEW

While we remain cautious overall in our outlook for U.S. equities, we are finding more opportunities to actively manage the Fund's risk lower by emphasizing the value aspect of our discipline. Over the past few months, a growing number of high-calibre companies' stocks have underperformed significantly to now be at reasonable valuation levels.

In October, we took advantage of various market opportunities, adding to our positions in TPI Composites, First Solar, American Eagle Outfitters, Applied Materials, Skechers U.S.A., Electronic Arts, HP Inc, LogMeIn, Celgene, Mohawk Industries and FedEx. Partially offsetting the purchases in the Fund, we reduced our weightings in Microsoft and Pfizer. The result of our recent actions has led to a slight reduction in the Fund's cash balance to under 15%. As always,

we maintain focused on the analysis of individual stocks and adhere diligently to our “growth at a reasonable price” investment philosophy.

## TAX INFORMATION

December 14th is the distribution date for both the North Growth U.S. Equity Fund and North Growth Canadian Equity Fund. The ongoing repositioning of the portfolios has realized substantial gains, and accordingly, we anticipate that the annual distributions for 2018 will remain at historically high levels.

Even with around one month to go, it is important to emphasize that our guidance are estimates that could still change materially. At this time, we estimate the distribution for the U.S. Equity Fund to be approximately \$7.65 per unit or 16% of the unit price, and for the Canadian Equity Fund approximately \$1.20 per unit or 7% of the unit price. The distributions will be almost entirely capital gains.

## U.S. EQUITY FUND

In October, the North Growth U.S. Equity Fund declined 6.6%. The Fund outperformed all the indices we regularly follow: the S&P 500 which was down 6.8%, the smaller capitalization S&P 400 Midcap and S&P 600 SmallCap indices which depreciated 9.6% and 10.5% respectively, as well as the NASDAQ Composite which lost 9.2%. In Canadian dollars, the Fund was down 5.1% for the month versus the S&P 500 Index which was down 5.4%.

## CANADIAN EQUITY FUND

The North Growth Canadian Equity Fund performed poorly in October, declining 12.2% against the S&P/TSX Composite which was down 6.3%. Maxar Technologies and Ballard Power Systems, two core holdings in the Fund, experienced disproportionate weakness in their share prices following disappointing third quarter earnings reports. Year-to-date, the Fund is down 7.9% versus the S&P/TSX's return of -5.0%.

## North Growth U.S. Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>-5.12</b>	<b>-5.25</b>	<b>0.27</b>	<b>5.09</b>
S&P 500 in \$CDN	-5.42	-2.32	5.86	7.91
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>-6.55</b>	<b>-6.15</b>	<b>-2.06</b>	<b>0.32</b>
S&P 500 \$U.S.	-6.84	-3.25	3.40	3.01
S&P 400 MidCap \$U.S.	-9.55	-7.68	-1.76	-2.77
S&P 600 SmallCap \$U.S.	-10.48	-9.13	0.92	2.54
NASDAQ Composite \$U.S.	-9.16	-4.52	3.95	6.73

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED OCTOBER 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>5.00</b>	<b>9.49</b>	<b>14.62</b>	<b>14.29</b>	<b>8.79</b>	<b>10.98</b>	<b>12.58</b>
S&P 500 \$CDN	9.42	11.71	16.61	14.23	8.71	5.77	9.93
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>3.01</b>	<b>9.30</b>	<b>9.44</b>	<b>13.30</b>	<b>8.82</b>	<b>11.87</b>	<b>12.35</b>
S&P 500 \$U.S.	7.35	11.52	11.34	13.24	8.74	6.62	9.70
S&P 400 MidCap \$U.S.	1.02	9.85	8.89	14.13	9.92	10.36	11.89
S&P 600 SmallCap \$U.S.	5.60	12.84	10.06	14.16	10.43	10.58	11.55
NASDAQ Composite \$U.S.	9.77	14.42	14.67	16.96	10.52	8.35	*10.24

Source: Bloomberg "Total Return Analysis" as of Nov.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	\$ 48.60 CDN
	\$ 36.98 CDN
Total Assets in Fund	\$ 525.3 Million CDN

## North Growth Canadian Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>-12.17</b>	<b>-8.28</b>	<b>-6.74</b>	<b>-7.94</b>
S&P / TSX \$CDN	-6.27	-7.87	-2.28	-5.00

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

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	10 Yrs
<b>NGM Canadian Equity Fund</b>	<b>-8.40</b>	<b>10.65</b>	<b>7.62</b>	<b>4.16</b>	<b>6.04</b>	<b>11.72</b>	<b>n/a</b>
S&P / TSX \$CDN	-3.41	3.77	6.67	3.73	5.44	6.34	7.56

\* 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 \$ 18.94 CDN

Total Assets in Fund \$ 43.7 Million CDN

## North Growth Canadian Money Market Fund

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

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.69</b>	<b>1.27</b>	<b>0.79</b>	<b>0.78</b>	<b>0.73</b>	<b>1.52</b>
30 Day Treasury Bill	N/A	1.15	0.74	0.75	0.75	1.54

\* 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 1.69% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

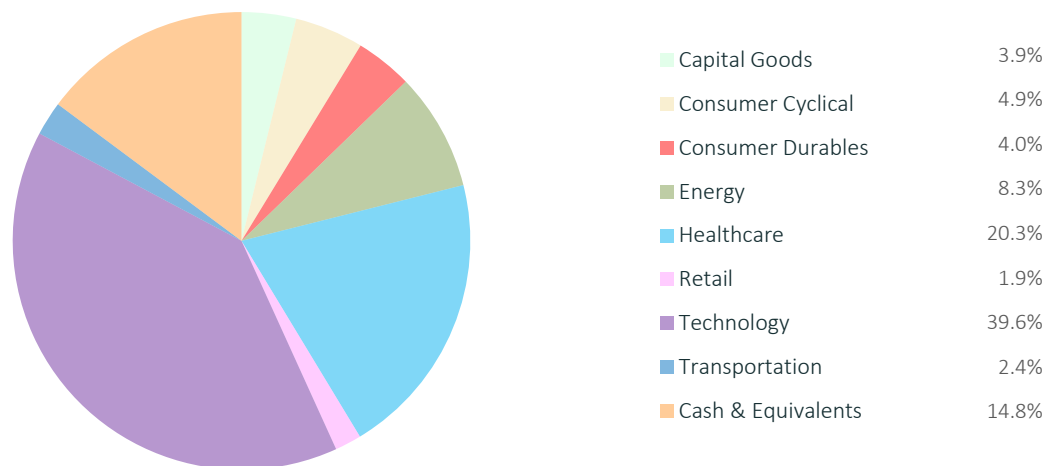
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

## Equity Fund Holdings and Composition

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

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.71
2	Apple Inc.	4.57
3	Intel Corporation	3.96
4	American Eagle Outfitters Inc.	3.41
5	First Solar Inc.	3.37
6	SolarEdge Technologies Inc.	3.24
7	Celgene Corp.	2.83
8	Applied Materials Inc.	2.64
9	Amgen Inc.	2.57
10	HP Inc.	2.52
<b>Top 10</b>		<b>34.82</b>
<b>Total Equities</b>		<b>85.18</b>
<b>Cash</b>		<b>14.82</b>
<b>Total Assets</b>		<b>100.00</b>

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

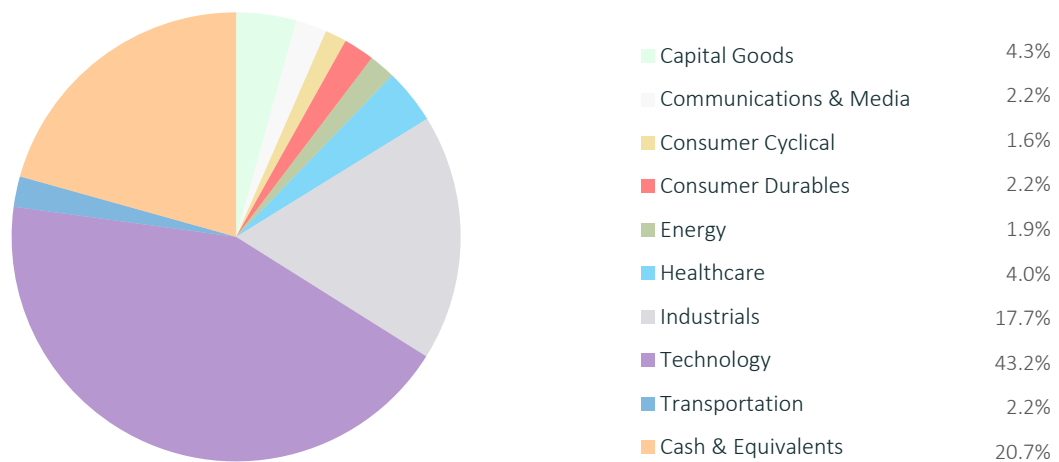




## CANADIAN EQUITY FUND — TOP 10 HOLDINGS AS AT OCTOBER 31, 2018

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	14.16
2	Sierra Wireless Inc.	6.19
3	Bombardier Inc., Class B	5.57
4	Open Text Corporation	5.17
5	CAE Inc.	4.77
6	Heroux-Devtek Inc.	4.36
7	ATS Automation Tooling Systems Inc.	4.32
8	EXFO Inc.	4.02
9	Celestica Inc.	3.13
10	Hydrogenics Corp.	3.10
<b>Top 10</b>		<b>54.79</b>
<b>Total Equities</b>		<b>79.34</b>
<b>Cash</b>		<b>20.66</b>
<b>Total Assets</b>		<b>100.00</b>

## CANADIAN EQUITY FUND — SECTOR MIX AS AT OCTOBER 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.**

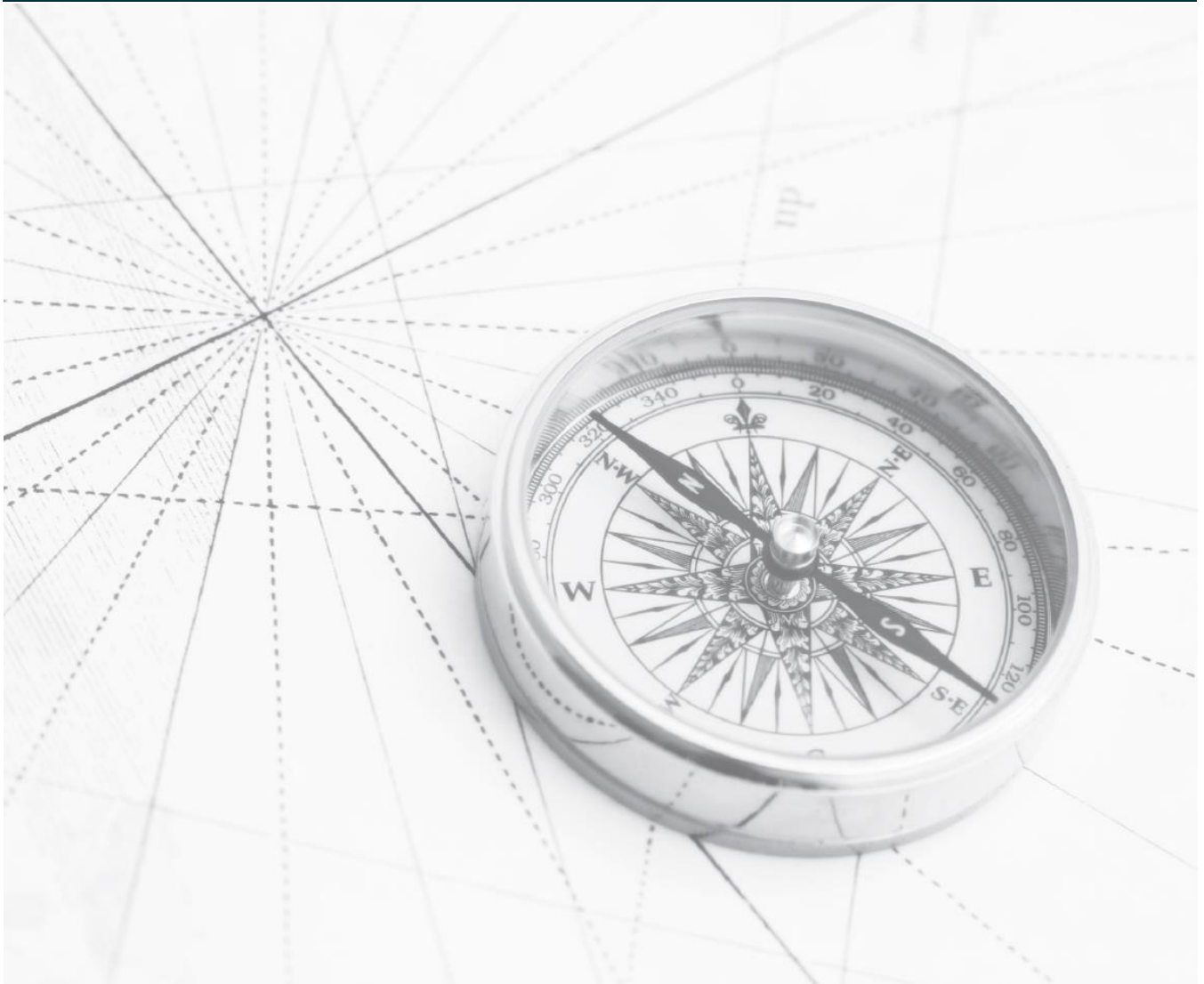
Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

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.





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