

# JANUARY 2019 MONTHLY REPORT

FEB. 15, 2019

## Fund Performance Update

On the heels of December's market meltdown, U.S. equities rebounded vigorously in January and posted their largest monthly gain since October 2015. The S&P 500's 8.0% rise marked the index's best start to the year since 1987. Indications from the Federal Reserve that interest rate increases are on hold, the temporary resolution to the partial United States government shutdown, and hope that the U.S. and China may successfully negotiate a trade agreement propelled the strong stock rally that began 2019.

### OUR VIEW

As we detailed in our recently published Annual Report, we maintain a cautious outlook for U.S. equities. Although corporate earnings results for the fourth quarter of 2018 are generally coming in better than expected, earnings are in a markedly decelerating trend. More importantly, the percentage of companies issuing negative earnings guidance is higher than average, and analysts now expect a decline in S&P 500 earnings for the first quarter of 2019, with muted profit growth of only 5% during the year ahead.

Both the U.S. economic and market cycles are extended in duration—we are tracking the longest economic expansion and are in the midst of the longest bull market on record. The combination of strong earnings growth last year and the market rout at the end of 2018 brought down the trailing valuation of the S&P 500; however, on a forward 12-month basis, equity multiples remain at the higher end of the historical range of price/earnings (P/E) ratios. Fundamentally, the macroeconomic backdrop remains solid, yet is weakening as anticipated, with global business conditions slower and corporate earnings growth losing momentum.

### U.S. FUND ADJUSTMENTS IN JANUARY

Continuing on our portfolio repositioning since 2017, we further reduced the weightings of the largest positions in the Fund—Apple, Cisco, Intel, and SolarEdge Technologies—and lowered the sizes of our holdings in Anthem, Boston Scientific and Abbott Laboratories. We also divested our position of Finisar as its pending acquisition by II-VI, another holding in the Fund, nears closing. The sales last month were taken subsequent to the significant negative earnings pre-

announcement by Apple and our assessment of deteriorating fundamentals for equity investments in general.

As a result of our actions over the past year, the Fund's cash balance has remained at higher than typical levels. With the average size of the portfolio holdings meaningfully reduced, we continue to seek to increase the number of names in the Fund. As we focus our efforts on the analysis of individual stocks, concentrating on identifying more investment opportunities, we continue to exercise patience despite the Fund holding nearly 19% cash at this time. We remain diligent, committed to the adherence of our long term "growth at a reasonable price" investment philosophy. .

### **T3, T4RIF AND T4RSP TAX SLIPS**

T3, T4RIF and T4RSP slips have been generated and we are in the process of mailing them out. Please contact our CFO, Rachid Nayel, at [rachid@northgrowth.com](mailto:rachid@northgrowth.com) if you do not receive your tax slips by February 20th.

### **RRSP REMINDER**

We are in RRSP season. The deadline for contributions for the 2018 tax year is Friday, March 1st. 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 8.5%. The Fund outperformed the S&P 500 which gained 8.0%, yet lagged the other indices we follow: the NASDAQ Composite which was up 9.8% and the smaller capitalization S&P 400 MidCap and S&P 600 SmallCap which appreciated 10.5% and 10.6% respectively. A stronger Canadian currency reduced the Fund's January return to 4.6% in Canadian dollars versus the S&P 500's 4.1% Canadian-dollar monthly return.

### **CANADIAN EQUITY FUND**

Likewise, Canadian equities got off to a strong start this year. The North Growth Canadian Equity Fund advanced 9.1% in January, ahead of the 8.7% gain of the S&P/TSX Composite Index.

## North Growth U.S. Equity Fund

### SHORT TERM RATES OF RETURN (%) FOR THE PERIOD ENDED JANUARY 31, 2019

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>4.55</b>	<b>2.42</b>	<b>-2.96</b>	<b>4.55</b>
S&P 500 in \$CDN	4.07	0.28	-2.05	4.07
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>8.51</b>	<b>2.40</b>	<b>-3.90</b>	<b>8.51</b>
S&P 500 \$U.S.	8.01	0.26	-3.00	8.01
S&P 400 MidCap \$U.S.	10.46	1.02	-6.74	10.46
S&P 600 SmallCap \$U.S.	10.64	-1.26	-10.27	10.64
NASDAQ Composite \$U.S.	9.79	-0.02	-4.54	9.79

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED JANUARY 31, 2019

	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception
<b>NGM U.S. Equity Fund \$CDN</b>	<b>6.43</b>	<b>11.17</b>	<b>13.46</b>	<b>16.42</b>	<b>8.45</b>	<b>10.26</b>	<b>12.56</b>
S&P 500 \$CDN	4.45	11.63	14.69	15.80	8.13	5.08	9.84
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>-0.46</b>	<b>13.55</b>	<b>9.76</b>	<b>15.62</b>	<b>8.51</b>	<b>11.03</b>	<b>12.32</b>
S&P 500 \$U.S.	-2.31	14.02	10.96	15.00	8.19	5.81	9.61
S&P 400 MidCap \$U.S.	-4.53	13.49	8.63	15.69	9.46	9.74	11.81
S&P 600 SmallCap \$U.S.	-1.25	15.64	9.37	16.33	9.73	9.94	11.38
NASDAQ Composite \$U.S.	-0.65	17.78	13.53	18.72	10.02	6.48	*10.12

Source: Bloomberg "Total Return Analysis" as of Feb. 1, 2019

\* 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	\$ 42.44 CDN
	\$ 32.29 CDN
Total Assets in Fund	\$ 512.4 Million CDN

## North Growth Canadian Equity Fund

### SHORT TERM RATES OF RETURN (%) FOR THE PERIOD ENDED JANUARY 31, 2019

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>9.09</b>	<b>-2.55</b>	<b>-10.62</b>	<b>9.09</b>
S&P / TSX \$CDN	8.74	4.28	-3.92	8.74

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED JANUARY 31, 2019

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	10 Yrs
<b>NGM Canadian Equity Fund</b>	<b>-8.00</b>	<b>5.09</b>	<b>7.75</b>	<b>2.37</b>	<b>3.80</b>	<b>8.89</b>	<b>n/a</b>
S&P / TSX \$CDN	0.47	3.52	9.81	4.58	5.64	6.58	7.80

\* 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 \$ 17.72 CDN

Total Assets in Fund \$ 41.9 Million CDN

## North Growth Canadian Money Market Fund

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED JANUARY 31, 2019

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.93</b>	<b>1.48</b>	<b>0.90</b>	<b>0.83</b>	<b>0.74</b>	<b>1.51</b>
30 Day Treasury Bill	N/A	1.36	0.83	0.79	0.75	1.52

\* 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 1.93% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

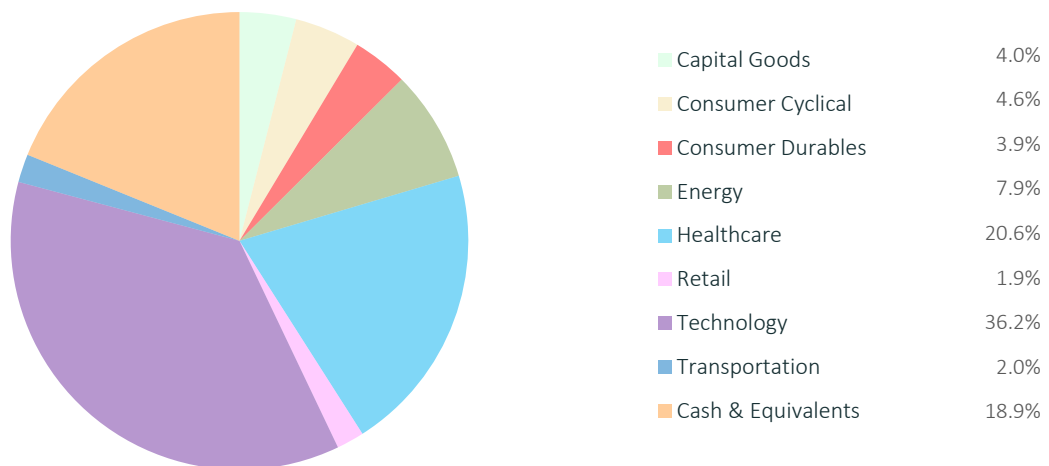
The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

## Equity Fund Holdings and Composition

### U.S. EQUITY FUND — TOP 10 HOLDINGS AS AT JANUARY 31, 2019

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.20
2	First Solar Inc.	4.18
3	Celgene Corp	3.59
4	Intel Corporation	3.33
5	Applied Materials Inc.	3.21
6	American Eagle Outfitters Inc.	3.20
7	Ciena Corp	2.82
8	Amgen Inc.	2.56
9	Gilead Sciences Inc.	2.54
10	Jabil Inc	2.44
<b>Top 10</b>		<b>33.07</b>
<b>Total Equities</b>		<b>81.14</b>
<b>Cash</b>		<b>18.86</b>
<b>Total Assets</b>		<b>100.00</b>

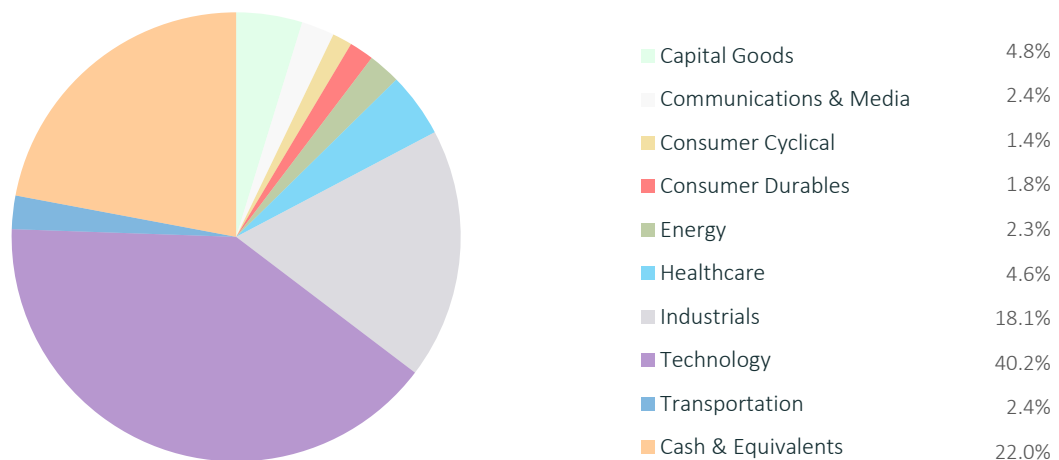
### U.S. EQUITY FUND — SECTOR MIX AS AT JANUARY 31, 2019



## CANADIAN EQUITY FUND — TOP 10 HOLDINGS AS AT JANUARY 31, 2019

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	12.42
2	CAE Inc.	5.98
3	Open Text Corporation	5.67
4	Sierra Wireless Inc.	5.57
5	Bombardier Inc., Class B	4.82
6	ATS Automation Tooling Systems Inc.	4.75
7	EXFO Inc.	4.74
8	Heroux-Devtek Inc.	4.62
9	Hydrogenics Corp.	3.40
10	Celestica Inc.	3.12
<b>Top 10</b>		<b>55.10</b>
<b>Total Equities</b>		<b>77.95</b>
<b>Cash</b>		<b>22.05</b>
<b>Total Assets</b>		<b>100.00</b>

## CANADIAN EQUITY FUND — SECTOR MIX AS AT JANUARY 31, 2019





## 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:

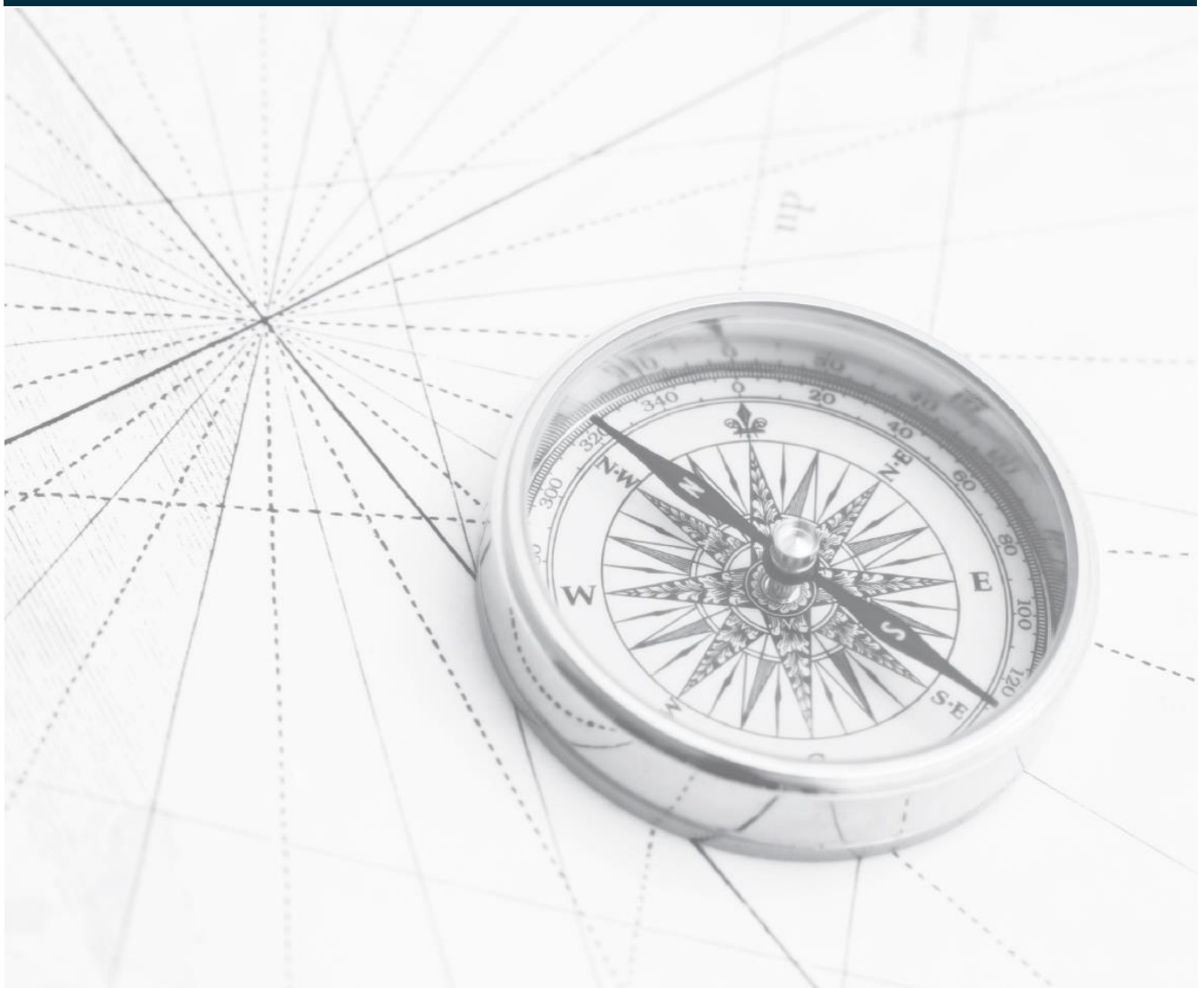
**North Growth Management Ltd.**

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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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