



## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2018

### NORTH GROWTH CANADIAN EQUITY FUND

Annual Management Report of Fund Performance  
for the year ended December 31, 2018

---

This annual management report of fund performance contains financial highlights, but does not contain the financial statements of the investment fund. You can obtain a copy of the audited annual financial statements at your request, and at no cost, by calling collect 1-604-688-5440, by writing to us at North Growth Management Ltd., Suite 830 One Bentall Centre, 505 Burrard Street, Box 56, Vancouver, BC V7X 1M4 or by visiting our website at [www.northgrowth.com](http://www.northgrowth.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us by using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. The Fund's Simplified Prospectus, Annual Information Form and Fund Facts are similarly available.

#### **A Note on Forward-Looking Statements**

This report may contain forward-looking statements that reflect our current expectations or forecasts of future events. Forward-looking statements are inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual events, results, performance or prospects to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, the volatility of global equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events and the risks detailed from time to time in the Fund's simplified prospectus. The foregoing list of important risks, uncertainties and assumptions is not exhaustive. Please consider these and other factors carefully and do not place undue reliance on forward-looking statements. The forward-looking information contained in this report is current only as of the date of this report. The Manager of the Fund does not undertake, and specifically disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

# Annual Management Report of Fund Performance

## North Growth Canadian Equity Fund

### Table of Contents

Management Discussion of Fund Performance .....	3
Investment Objective and Strategies.....	3
Risk .....	3
Results of Operations .....	3
Recent Developments .....	5
Related Party Transactions .....	5
Financial Highlights.....	6
Series F.....	6
Series N.....	7
Series D.....	7
Ratios and Supplemental Data .....	8
Management Fee.....	10
Past Performance .....	10
Summary of Investment Portfolio as at December 31, 2018.....	12

# Management Discussion of Fund Performance

## Investment Objective and Strategies

The investment objective of the North Growth Canadian Equity Fund (the “Fund”) is to provide long-term capital growth by investing in common shares of Canadian-based corporations in line with our carbon free mandate. In order to achieve this objective, we invest in companies that are undervalued in relation to their expected growth potential. In assessing which companies fit within our “growth at a reasonable price” strategy, we look for superior growth trends, companies within industries that should provide a positive environment for future growth, companies that are dominant within an industry or that have a niche within an industry, and companies with management teams that are likely to guide their companies to superior growth.

## Risk

This Fund is ideally suited for investors looking for long-term capital appreciation through investment in equity securities of Canadian corporations. Investors should have a medium to high tolerance for risk and a minimum investment horizon of five years.

There were no significant changes to the Fund’s overall level of risk during the year. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus. The Fund classifies risk using the methodology prescribed in *National Instrument 81-102 – Investment Funds*.

## Results of Operations

The annual results were disappointing; during the twelve-month period ending December 31, 2018, the Series F and D units of the Fund fell 17.51% and 17.76%, respectively. This compares to a loss of 8.89% for the S&P/TSX Composite Index. The difference in performance between the Series F units and the Series D units is attributed to the 0.30% trailer commissions paid on the Series D units of the Fund.

There were limited changes to the overall composition of the Fund during the year. We added two positions to the Fund during the year: Aritzia Inc. which is a rapidly growing women’s fashion retailer and Zymeworks Inc. which is a clinical-stage biotechnology company focused on developing novel cancer treatments. Avigilon Corporation and Mitel Networks were subject to takeover offers which resulted in their disposition for cash. Alterra Power was taken over in an all-share transaction by Innergex Renewable Energy, which became a small portfolio holding when the deal closed in February that was subsequently added to. Various other positions were added to or reduced with the net result that cash holdings increased from approximately 12% at the beginning of the year to almost 23% at the end of the year. On December 14th Series F and D paid capital gains distributions of \$0.69 and \$0.59 respectively. Despite the decline in unit prices for the year, the capital gains distributions were the result of the gains realized from the disposition of Avigilon and Mitel not being fully offset by any realized losses and expenses for the Fund during the year.

Ballard Power Systems, which is the Fund's largest position, hurt the Fund's performance during the year. The company is a leader in the development and commercialization of proton fuel cell power systems. Although the markets for this technology remain at an emerging stage, we have positioned the Fund aggressively based on our views the market will develop to significant scale providing strong growth opportunities for Ballard. We have remained committed to the company's long-term story despite significant price volatility in Ballard shares over the years. During 2018, Ballard received a significant investment from Weichai Power, a Chinese diesel engine manufacturer, amounting to a 20% position in the company for approximately US\$163.6 mn. This investment, in addition to an extra US\$20.2 mn investment from existing shareholder, Zhongshan Broad Ocean Ltd, allowing Broad Ocean to maintain a 10% ownership in Ballard, reinforces Ballard's strong capital position for continued investment in its core fuel cell business. Ballard continues to be the Fund's largest position although we acknowledge that the long-term story is being challenged by the slower-than-expected development of the market for fuel cells for heavy duty motive applications in China.

Maxar Technologies was also one of the significant contributors to the Fund's weak performance during the year. At the beginning of the year, Maxar was the third largest holding in the Fund. We added to the position both in March and late August believing that concerns regarding current free cash flow and debt burden were being overemphasized by the markets and providing an opportunity to maintain our portfolio weighting at attractive valuations. Further deterioration in business trends and the write-off of the GEO Comsat assets announced with the third quarter earnings results ultimately led us to reassess our confidence in options being considered by management to manage its significant debt burden. We exited the position at a loss in late November and early December.

Along with Ballard and Maxar, Bombardier contributed to the Fund's weak performance for the year. During the first half of 2018, Bombardier shares were up substantially as encouraging operational improvements in both the aviation and transportation divisions raised confidence that the on-going multi-year turnaround was gaining traction. However, subsequent to the second quarter earnings release, the shares began to weaken as the focus shifted from improved operating margins to concerns regarding free cash flow generation. As management lowered guidance for free cash flow with the company's third quarter earnings, citing increased requirements for working capital as the transportation division is moving to accelerate deliveries next year, the shares declined further. While clearly the cash flow news is disappointing, we believe the company has made substantial progress in its turnaround and is in a much better position than it was a few years ago. Although Bombardier is a controversial company, we continue to believe management has a solid plan to continue improving operational results and adequate liquidity in place, providing a path for solid growth over the next three years.

Other significant holdings that hurt performance during the year were Sierra Wireless, Dorel Industries, Exfo Inc., Héroux-Devtek, Magellan Aerospace, Hydrogenics Corp., and Westjet Airlines. We continue to evaluate the long-term outlook for these holdings to determine if any changes to our positioning is warranted. In some of these names reduced market liquidity for the shares further complicates our decision process. More positive contributions to performance last year were delivered from Open Text Corporation, CAE Inc, Novanta Inc and Telus.

Please refer to the North Growth Canadian Equity Fund Prospectus and AIF for more detailed information about Series D and Series F units of the Fund. You can get a copy of these documents, at your request, and at no cost, from your dealer. They are also available on the North Growth website at [www.northgrowth.com](http://www.northgrowth.com), or on SEDAR at [www.sedar.com](http://www.sedar.com).

## Recent Developments

During 2018, the Canadian Equity Fund posted a decline of 17.8% compared to a loss of 8.9% for the S&P/TSX Composite Index. The results were disappointing, as most of the underperformance came largely during the last quarter of the year when volatility dragged global equities down significantly. In the fourth quarter, the materials sector was the only sector of consequential weighting that gained 0.85% compared to the S&P/TSX Composite Index that fell 10.1%. Our absence there and from the heavy weight energy and financial sectors provided little protection as broad-based selling across the Canadian equity landscape impacted some of our largest holdings.

Following two years of strong gains, the S&P/TSX Composite Index struggled through most of 2018. Key economic figures have bounced around and are likely to moderate when fourth quarter figures are reported in early 2019. Uncertainties surrounding NAFTA negotiations (which eventually lead to the signing of the USMCA agreement), US-China trade tensions, pipeline uncertainty, and weak oil prices have collectively weighed on investor sentiment. Despite such headwinds, however, the Canadian economy still remains on a sound footing, supported by strong labor gains and accommodative financial conditions.

After serving as North Growth Management's Independent Review Committee's Chair since its inception over nine years ago, Peter Jarvis resigned at the end of 2018. He is replaced in this role by Jill Leversage, an independent advisor and board member with over thirty years of senior executive experience in the investment banking industry at Highland West Capital, TD Securities and RBC Capital Markets.

## Related Party Transactions

North Growth Management Ltd. is the Manager and portfolio advisor of the Fund. It provides investment and portfolio management services to the Fund and is responsible for the overall operations of the Fund. The Fund pays the Manager for services provided (see Management Fee).

During the year ended December 31, 2018, the Manager neither purchased nor redeemed units of the Fund (2017 - none).

At December 31, 2018, affiliates, officers and directors of the Manager owned 60.90% (December 31, 2017 - 62.64%) of the outstanding units of the Fund.

On December 31, 2018, the Fund carried an outstanding payable balance to the Manager for management fees in the amount of \$32,526 (December 31, 2017 - \$38,420).

# Financial Highlights

*For the year ended December 31, 2018, and for the comparative years ended December 31, 2014 through 2017*

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

## Series F

The Fund's Net Asset Per Unit <sup>1</sup> Series F	December 31,				
	2018	2017	2016	2015	2014
<b>Net Assets, beginning of year</b>	<b>\$20.70</b>	\$17.07	\$17.73	\$20.15	\$18.23
<b>Increase (decrease) from operations</b>					
Total revenue	<b>0.22</b>	0.17	0.25	0.18	0.19
Total expenses	<b>(0.16)</b>	(0.16)	(0.17)	(0.21)	(0.28)
Realized gains for the year	<b>0.57</b>	1.82	1.18	0.26	2.45
Unrealized gains (losses) for the year	<b>(4.23)</b>	3.31	(0.68)	(2.65)	1.15
<b>Total increase (decrease) from operations <sup>2</sup></b>	<b>(4.09)</b>	5.14	0.58	(2.42)	3.51
<b>Distributions:</b>					
From capital gains	(0.69)	(1.54)	(1.22)	-	(1.52)
<b>Total Annual Distribution <sup>3</sup></b>	<b>(0.69)</b>	(1.54)	(1.22)	-	(1.52)
<b>Net assets at December 31 of year shown</b>	<b>\$16.40</b>	\$20.70	\$17.07	\$17.73	\$20.15

### Series N

The Fund's Net Assets Per Unit <sup>1</sup> Series N	December 31,				
	2018	2017	2016	2015	2014
<b>Net Assets, beginning of year</b>	<b>\$20.58</b>	\$17.01	\$17.70	\$20.15	\$18.24
<b>Increase (decrease) from operations</b>					
Total revenue	<b>0.22</b>	0.17	0.25	0.18	0.19
Total expenses	<b>(0.21)</b>	(0.20)	(0.21)	(0.24)	(0.28)
Realized gains for the year	<b>0.57</b>	1.82	1.18	0.26	2.45
Unrealized (losses) gains for the year	<b>(4.23)</b>	3.31	(0.68)	(2.65)	1.15
Total (decrease) increase from operations <sup>2</sup>	<b>(3.63)</b>	5.10	0.54	(2.45)	3.51
<b>Distributions:</b>					
From capital gains	(0.69)	(1.54)	(1.22)	-	(1.52)
<b>Total Annual Distribution<sup>3</sup></b>	<b>(0.69)</b>	(1.54)	(1.22)	-	(1.52)
<b>Net assets at December 31 of year shown</b>	<b>\$16.24</b>	\$20.58	\$17.01	\$17.70	\$20.15

### Series D

The Fund's Net Assets Per Unit <sup>1</sup> Series D	December 31,				
	2018	2017	2016	2015	2014
<b>Net Assets, beginning of year</b>	<b>\$20.88</b>	\$17.20	\$17.77	\$20.28	\$18.26
<b>Increase (decrease) from operations</b>					
Total revenue	<b>0.22</b>	0.17	0.25	0.18	0.19
Total expenses	<b>(0.22)</b>	(0.20)	(0.25)	(0.29)	(0.38)
Realized gains for the year	<b>0.57</b>	1.82	1.18	0.26	2.45
Unrealized (losses) gains for the year	<b>(4.23)</b>	3.31	(0.68)	(2.65)	1.15
<b>Total (decrease) increase from operations <sup>2</sup></b>	<b>(3.93)</b>	5.10	0.50	(2.50)	3.41
<b>Distribution:</b>					
From capital gains	(0.59)	(1.47)	(1.08)	-	(1.33)
<b>Total Annual Distribution<sup>3</sup></b>	<b>(0.59)</b>	(1.47)	(1.08)	-	(1.33)
<b>Net assets at December 31 of year shown</b>	<b>\$16.59</b>	\$20.88	\$17.20	\$17.77	\$20.28

1. This information is derived from the Fund's audited annual financial statements. Due to potential rounding differences, the sum of the individual components of the disclosed information does not necessarily amount to the Net Assets, End of Year balance.
2. Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from investment operations is based on the weighted average number of units outstanding over the financial year.
3. Distributions were paid in cash or reinvested in additional units of the Fund.

## Ratios and Supplemental Data

Ratios and Supplemental Data Series F	December 31,				
	2018	2017	2016	2015	2014
Total net asset value (000's) <sup>4</sup>	<b>\$1,586</b>	\$1,605	\$1,260	\$1,482	\$1,539
Number of units outstanding (000's)	<b>97</b>	78	74	83	76
Management expense ratio (January – June) <sup>5</sup>	<b>0.70%</b>	0.90%	0.90%	1.25%	1.25%
Management expense ratio (July – December)	<b>0.70%</b>	0.70%	0.90%	0.90%	1.25%
Management expense ratio before waivers and absorptions <sup>6</sup>	<b>0.73%</b>	0.82%	0.91%	1.09%	1.28%
Trading expense ratio	<b>0.06%</b>	0.10%	0.09%	0.06%	0.09%
Portfolio turnover rate <sup>7</sup>	<b>17.27%</b>	7.62%	17.86%	11.97%	17.09%
Net asset value per unit	<b>\$16.40</b>	\$20.70	\$17.07	\$17.73	\$20.15

Ratios and Supplemental Data Series N	December 31,				
	2018	2017	2016	2015	2014
Total net asset value (000's) <sup>4</sup>	<b>\$35,708</b>	\$42,997	\$34,744	\$35,041	\$39,462
Number of units outstanding (000's)	<b>2,198</b>	2,090	2,042	1,979	1,959
Management expense ratio (January – March) <sup>5</sup>	<b>1.00%</b>	1.08%	1.08%	1.25%	1.25%
Management expense ratio (April – December)	<b>1.00%</b>	1.00%	1.08%	1.20%	1.25%
Management expense ratio before waivers and absorptions <sup>6</sup>	<b>1.03%</b>	1.06%	1.12%	1.26%	1.28%
Trading expense ratio	<b>0.06%</b>	0.10%	0.09%	0.06%	0.09%
Portfolio turnover rate <sup>7</sup>	<b>17.27%</b>	7.62%	17.86%	11.97%	17.09%
Net asset value per unit	<b>\$16.24</b>	\$20.58	\$17.01	\$17.70	\$20.15



Ratios and Supplemental Data Series D	December 31,				
	2018	2017	2016	2015	2014
Total net asset value (000's) <sup>4</sup>	<b>\$1,203</b>	\$981	\$580	\$1,102	\$1,337
Number of units outstanding (000's)	<b>73</b>	47	34	62	66
Management expense ratio (January - June) <sup>5</sup>	<b>1.00%</b>	1.20%	1.20%	1.75%	1.75%
Management expense ratio (July - December)	<b>1.00%</b>	1.00%	1.20%	1.20%	1.75%
Management expense ratio before waivers and absorptions <sup>6</sup>	<b>1.03%</b>	1.05%	1.35%	1.52%	1.77%
Trading expense ratio <sup>7</sup>	<b>0.06%</b>	0.10%	0.09%	0.06%	0.09%
Portfolio turnover rate <sup>8</sup>	<b>17.27%</b>	7.62%	17.86%	11.97%	17.09%
Net asset value per unit	<b>\$16.59</b>	\$20.88	\$17.20	\$17.77	\$20.28

4. This information is provided as at December 31 of the year shown.
5. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
6. The Manager pays all fees related to the IRC; the *Management expense ratio before waivers and absorptions* represents what the MER would be if the Fund paid the IRC fees.
7. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
8. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Management Fee

North Growth Management Ltd. is the portfolio advisor and manager of the Fund and receives a management fee from the Fund for these services. The Fund has three series: Series D, Series F and Series N. Management fees are calculated daily and payable monthly, at an annual rate of 0.70% for Series F and D of the Fund. The Series N management fee calculated at an annual rate of 1.00%.

The Manager pays all operating costs of the Fund except for brokerage fees, any taxes payable, interest charges if any, and trailer fees. It is not reimbursed for these costs.

The Fund is distributed by registered dealers. Series D pays a trailing commission of 0.30%. Series F units are available through dealers who are generally compensated by their clients on a fee-for-service basis.

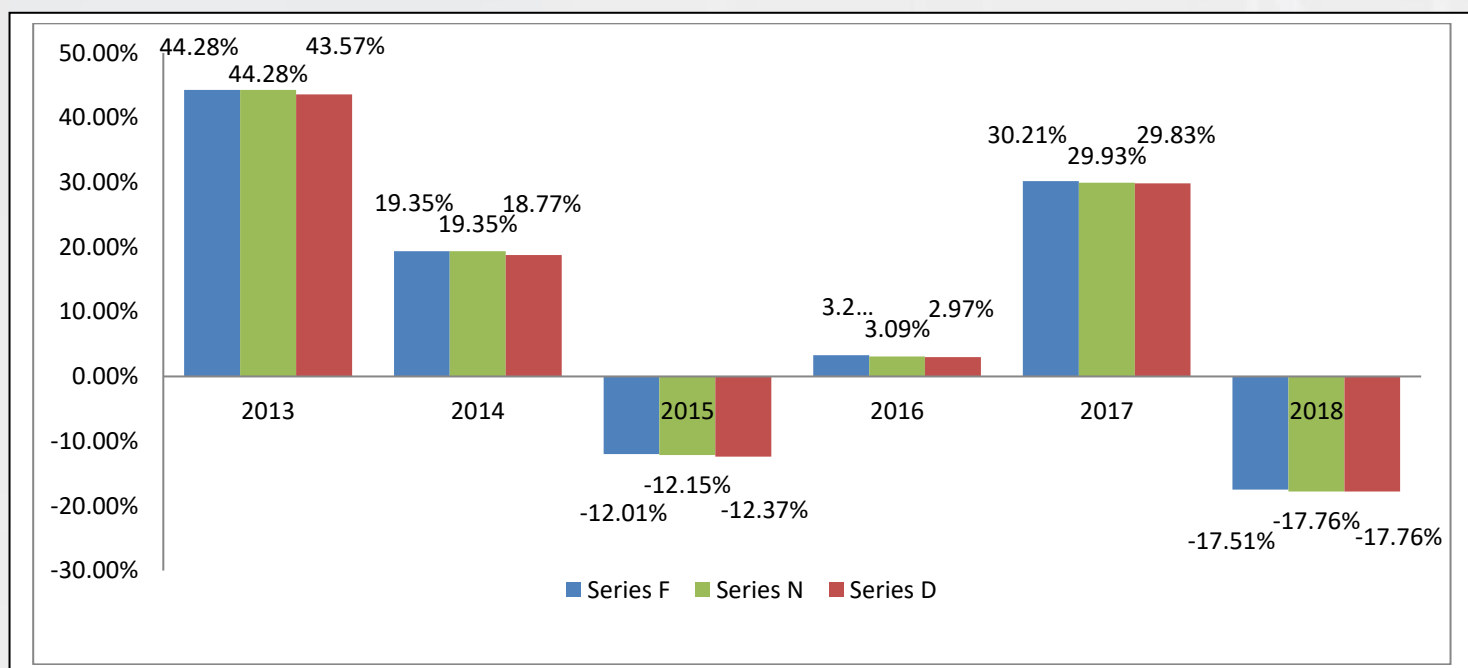
## Past Performance

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future and is based on the net asset value of the Fund.

### Annual and Year-by-Year Returns

The bar charts indicate the Fund's performance for the years ended December 31, 2018, 2017, 2016, 2015, 2014, and 2013. The bar charts show in percentage terms how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year in Canadian dollars.

#### Summary of Performance Expressed in Canadian Dollars



## Past Performance (Continued)

### Annual Compound Returns and Annual Return

The S&P/TSX Composite Total Return Index is widely regarded as the best single gauge of the Canadian equities market. It is comprised of leading companies in leading industries of the Canadian economy.

The table below shows the annual return for each series, and the annual compound rate of return of each series for the years indicated compared to the S&P/TSX Composite Total Return Index in Canadian dollar terms.

	Year Ended December 31, 2018	Past 3 years	Past 5 years	*Since Inception
<b>Series F</b>	<b>-17.51%</b>	<b>3.52%</b>	<b>3.10%</b>	<b>9.60%</b>
<b>Series N</b>	<b>-17.76%</b>	<b>3.28%</b>	<b>2.92%</b>	<b>9.60%</b>
<b>Series D</b>	<b>-17.76%</b>	<b>3.21%</b>	<b>2.73%</b>	<b>8.79%</b>
S&P/TSX Composite \$CDN	-8.89%	6.37%	4.06%	6.53%

\*For the purpose of calculating returns, the inception date used is *June 15, 2012*.

## Summary of Investment Portfolio as at December 31, 2018

The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund. It is updated quarterly, within 60 days of quarter end, and is available as indicated on the front cover of this report.

### Top 22 Holdings

Ranking	Holdings	% of Net Assets
1.	Ballard Power Systems Inc.	10.76
2.	Open Text Corporation	5.87
3.	CAE Inc.	5.85
4.	Sierra Wireless Inc.	5.43
5.	Bombardier Inc., Class B	5.34
6.	Heroux-Devtek Inc.	5.13
7.	EXFO Inc.	4.86
8.	ATS Automation Tooling Systems Inc.	4.40
9.	Celestica Inc.	3.11
10.	Evertz Technologies Limited	2.94
11.	Hydrogenics Corp.	2.83
12.	Magellan Aerospace Corp.	2.72
13.	Zymeworks Inc	2.55
14.	TELUS Corporation	2.54
15.	WestJet Airlines Ltd.	2.34
16.	Knight Therapeutics Inc	2.30
17.	Innergex Renewable Energy Inc.	2.21
18.	Dorel Industries Inc., Class B	2.07
19.	Novanta Inc.	2.01
20.	Aritzia Inc	1.49
21.	Pixelworks Inc	0.35
22.	exactEarth Ltd.	0.20

### Sector Allocation

Sector Allocation	% of Net Assets
Technology	38.36
Industrials	19.05
Healthcare	4.84
Capital Goods	4.40
Communications & Media	2.54
Transportation	2.34
Energy	2.21
Consumer Durables	2.07
Consumer cyclical	1.49
Equities Total	77.30
Other Net Assets	22.70
Portfolio Total	100.00

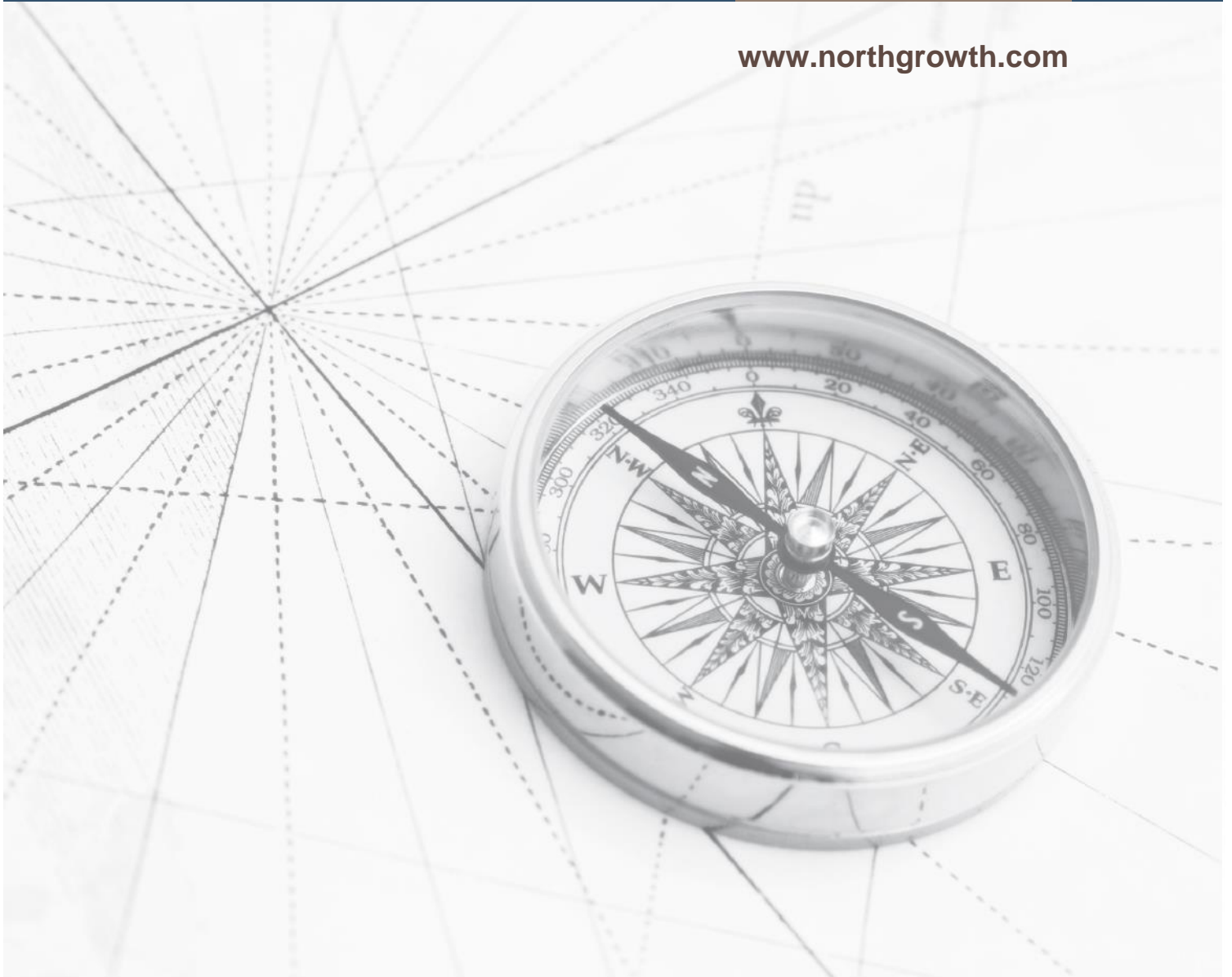
A faint, light-colored line chart is visible in the background of the page. It features several jagged lines representing data trends over time, with some lines showing a general upward trajectory and others showing more volatility. The chart is positioned in the upper right and lower right areas of the page.

**THIS PAGE INTENTIONALLY LEFT BLANK**



**NORTH**  
GROWTH MANAGEMENT LTD.

[www.northgrowth.com](http://www.northgrowth.com)



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](mailto:info@northgrowth.com)