

# **North Growth U.S. Equity Advisor Fund**

Annual Financial Statements  
and Independent Auditors' Report to the Unitholders

Years ended December 31, 2018,  
and December 31, 2017

# North Growth U.S. Equity Advisor Fund

December 31, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of North Growth U.S. Equity Advisor Fund

### ***Opinion***

We have audited the financial statements of North Growth U.S. Equity Advisor Fund (the Fund), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### ***Other Information***

The Manager is responsible for the other information. Other information comprises:

- the information included in the Annual Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

### ***Responsibilities of the Manager and Those Charged with Governance for the Financial Statements***

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG LLP*

Chartered Professional Accountants

Vancouver, Canada  
March 14, 2019

**North Growth U.S. Equity Advisor Fund**  
**Statements of financial position**  
**December 31, 2018, with comparative information for 2017**  
*(Amounts in thousands of Canadian dollars, except per unit amounts)*

	Note	2018	2017
<b>Assets</b>			
Cash		\$ 9,407	\$ 8,958
Broker receivable		-	7
Interest receivable		-	2
Subscriptions receivable		-	1
Dividends receivable		36	15
Short term notes		-	2,246
Equity investments, at fair value (Cost: \$38,591; 2017: \$30,294)		55,687	53,215
		<b>65,130</b>	<b>64,444</b>
<b>Liabilities</b>			
Accrued liabilities	13	41	41
		<b>41</b>	<b>41</b>
<b>Net assets attributable to holders of redeemable units</b>		<b>\$ 65,089</b>	<b>\$ 64,403</b>
<b>Represented by:</b>			
<b>Net assets attributable to holders of redeemable units</b>			
Series F		\$ 56,983	\$ 57,363
Series D		8,106	7,040
<b>Net assets attributable to holders of redeemable units per unit</b>			
Series F		\$ 30.25	\$ 31.72
Series D		30.35	31.83

APPROVED ON BEHALF OF THE MANAGER,  
NORTH GROWTH MANAGEMENT LTD.



Rory North  
CEO and Director

**North Growth U.S. Equity Advisor Fund**  
**Statements of comprehensive income**  
**Year ended December 31, 2018, with comparative information for 2017**

*(All amounts in thousands of Canadian dollars, except per unit amounts)*

	Note	2018	2017
<b>Revenue:</b>			
Dividend income		\$ 801	\$ 1,339
Interest income		147	33
Other income		1	-
Foreign exchange loss on cash		(12)	(57)
Change in fair value of investments			
Net realized gain		6,903	11,191
Decrease in unrealized appreciation		(5,344)	(2,443)
<b>Total revenue</b>		<b>2,496</b>	<b>10,063</b>
<b>Expenses:</b>			
Management fees	9, 13	487	489
Withholding taxes	5	122	140
Trailer fees	9	25	26
Transaction costs	12	31	40
<b>Total operating expenses</b>		<b>665</b>	<b>695</b>
<b>Increase in net assets attributable to holders of redeemable units, from operations excluding distributions</b>		<b>1,831</b>	<b>9,368</b>
<b>Distribution to holders of redeemable units</b>			
From net investment income	6	(282)	(734)
From net realized gain on investments	6	(4,356)	(4,301)
		(4,638)	(5,035)
<b>(Decrease)/Increase in net assets attributable to holders of redeemable units, from operations</b>		<b>\$ (2,807)</b>	<b>\$ 4,333</b>
<b>(Decrease)/Increase in net assets attributable to holders of redeemable units, from operations</b>			
<b>Series F</b>		<b>\$ (2,392)</b>	<b>\$ 3,560</b>
<b>Series D</b>		<b>(415)</b>	<b>773</b>
<b>Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)</b>			
<b>Series F</b>	14	<b>\$ 1,685</b>	<b>\$ 8,083</b>
<b>Series D</b>	14	<b>146</b>	<b>1,285</b>
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>			
<b>Series F</b>	14	<b>\$ 0.93</b>	<b>\$ 4.85</b>
<b>Series D</b>	14	<b>0.59</b>	<b>4.98</b>

## North Growth U.S. Equity Advisor Fund

### Statements of changes in net assets attributable to holders of redeemable units

Year ended December 31,

(Amounts in thousands of Canadian dollars)

#### 2018

	Series F	Series D
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>\$ 57,363</b>	<b>\$ 7,040</b>
Decrease in net assets attributable to holders of redeemable units, from operations	(2,392)	(415)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	2,452	1,522
Reinvestment of distributions to holders of redeemable units	4,072	523
Redemption of redeemable units	(4,512)	(564)
<b>Net increase from redeemable unit transactions</b>	<b>2,012</b>	<b>1,481</b>
<b>Net (decrease)/increase in net assets attributable to holders of redeemable units</b>	<b>(380)</b>	<b>1,066</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>\$ 56,983</b>	<b>\$ 8,106</b>

#### 2017

	Series F	Series D
<b>Net assets attributable to holders of redeemable units at beginning of year</b>	<b>\$ 50,385</b>	<b>\$ 9,506</b>
Increase in net assets attributable to holders of redeemable units, from operations	3,560	773
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	6,639	458
Reinvestment of distributions to holders of redeemable units	2,862	466
Inter-series transfer of redeemable units	326	(326)
Redemption of redeemable units	(6,409)	(3,837)
<b>Net increase from redeemable unit transactions</b>	<b>3,418</b>	<b>(3,239)</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>6,978</b>	<b>(2,466)</b>
<b>Net assets attributable to holders of redeemable units at end of year</b>	<b>\$ 57,363</b>	<b>\$ 7,040</b>

## North Growth U.S. Equity Advisor Fund

### Statements of cash flows

Year ended December 31, 2018, with comparative information for 2017

(Amounts in thousands of Canadian dollars)

	2018	2017
<b>Cash (used in)/provided by:</b>		
<b>Operating activities</b>		
(Decrease)/Increase in net assets attributable to holders of redeemable units, from operations	\$ (2,807)	\$ 4,333
<b>Adjust for:</b>		
Foreign exchange loss on cash	(12)	(57)
Net realized gain on sale of investments	(6,903)	(11,191)
Interest income on short term notes	(27)	(1)
Dividend income	(801)	(1,339)
Withholding taxes on dividend income	122	140
Stock Dividend	-	421
Return of Capital	-	91
Change in broker and interest receivable	9	(9)
Change in unrealized appreciation of investments	5,344	2,443
Change in unrealized appreciation/(depreciation) of cash	572	(472)
Purchases of investments	(31,167)	(15,248)
Proceeds from sale of investments	31,955	26,008
Change in accrued liabilities	-	(7)
Dividends received	658	801
<b>Net cash flow (used in)/from operating activities</b>	<b>(3,057)</b>	<b>5,913</b>
<b>Financing activities</b>		
Reinvested distributions paid to holders of redeemable units	4,595	3,328
Proceeds from issuances of redeemable units	3,975	7,148
Amounts paid on redemption of redeemable units	(5,076)	(10,246)
<b>Net cash flow from financing activities</b>	<b>3,494</b>	<b>230</b>
Foreign exchange loss on cash	12	57
Net increase in cash	437	6,143
Cash at beginning of year	8,958	2,758
<b>Cash at end of year</b>	<b>\$ 9,407</b>	<b>\$ 8,958</b>

**North Growth U.S. Equity Advisor Fund**  
**Schedule of equity investment portfolio**  
**December 31, 2018**

*(Amounts in thousands of Canadian dollars, number of shares expressed in thousands)*

Number of Shares	Foreign Common Shares	Cost	Carrying Value
65	Cisco Systems Inc.	\$ 1,411	\$ 3,856
44	Intel Corporation	990	2,816
41	First Solar Inc.	2,079	2,386
11	Apple Inc.	454	2,347
44	SolarEdge Technologies Inc.	1,587	2,093
76	American Eagle Outfitters Inc.	1,519	1,997
41	Applied Materials Inc.	1,125	1,833
7	Amgen Inc.	903	1,810
20	Celgene Corp	2,551	1,766
17	Abbott Laboratories	882	1,677
35	Ciena Corp	1,035	1,638
34	Boston Scientific Corporation	1,013	1,630
18	Gilead Sciences Inc.	1,034	1,570
46	Jabil Inc	1,673	1,569
53	HP Inc.	1,424	1,492
25	Pfizer Inc.	648	1,466
48	Finisar Corporation	1,343	1,414
10	Zimmer Biomet Holdings Inc.	879	1,407
92	DSP Group Inc.	774	1,404
3	Anthem Inc.	220	1,238
6	FedEx Corp.	1,183	1,232
19	Itron Inc.	1,046	1,218
8	Motorola Solutions Inc	1,068	1,208
29	Johnson Controls International plc	1,372	1,191
17	Cerner Corporation	891	1,189
35	TPI Composites Inc	1,040	1,169
11	Electronic Arts Inc.	899	1,136
26	Herman Miller Inc.	661	1,071
7	Citrix Systems Inc.	430	986
7	Texas Instruments Inc.	203	949
6	Microsoft Corporation	173	878
26	Skechers U.S.A., Inc.	990	815
5	Varian Medical Systems Inc.	277	734
16	II-VI Inc.	700	710
6	LogMeIn Inc	785	698
17	Masco Corp	681	658
12	Fortune Brands Home & Security Inc	683	614
2	Ulta Beauty Inc.	469	585
8	Best Buy Co., Inc.	686	578
13	Varex imaging Corporation	436	435
2	Coherent, Inc	374	224
<b>Total investments</b>		<b>\$ 38,591</b>	<b>\$ 55,687</b>

**North Growth U.S. Equity Advisor Fund**  
**Schedule of short-term debt investment portfolio**  
**December 31, 2018, with comparative information for 2017**  
*(Amounts in thousands of Canadian dollars)*

**2018**

<b>Par Value \$</b>	<b>Short Term Notes (treasury bills 100%)</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
-	There were no short-term notes in the portfolio on December 31, 2018	\$ -	\$ -
<b>Total short term note investments</b>		<b>\$ -</b>	<b>\$ -</b>

**2017**

<b>Par Value \$</b>	<b>Short Term Notes (treasury bills 100%)</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
2,250	Government of Canada, 0.82%, February 8, 2018	\$2,246	\$ 2,246
<b>Total short term note investments</b>		<b>\$2,246</b>	<b>\$ 2,246</b>

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 1. The Fund

The North Growth U.S. Equity Advisor Fund (the "Fund") is an open-ended mutual fund established under the laws of the Province of British Columbia and is governed by the Declaration of Trust dated May 7, 2009 (the Declaration of Trust), as amended from time to time. The address of the Fund's registered office is 830 – 505 Burrard Street, Vancouver, British Columbia. The Fund invests in equity securities of companies of the United State of America. The financial statements are presented in Canadian dollars ("CAD"), which is the Fund's functional currency. The financial statements were authorized for issue by North Growth Management Ltd. (the "Manager") on March 14, 2019.

For purposes of these financial statements, reference herein to "year" or "years" includes, where applicable, "period" or "periods".

## 2. Basis of Presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all year in the financial statements, with the exception of IFRS 9 Financial Instruments ("IFRS 9") (refer to Note 4).

(a) *Basis of Measurement*

The financial statements are based on the historical cost basis except for investments which are measured at fair value.

(b) *Financial instruments effective January 1, 2018*

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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### 3. Significant Accounting Policies (continued):

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Fund may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Fund has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities, The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued):

### (ii) Fair value through profit and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Fund's investments in securities are classified as FVTPL.

The Fund's investment in short-term Canadian debt securities are valued at their cost. This value, together with accrued interest, approximates fair value using closing prices.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

### (iii) Amortized Cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash, dividends receivable, interest receivable, accrued liabilities and distributions payable to holders of redeemable units as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued)

(c) *Financial instruments prior to January 1, 2018*

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, FVTPL, available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities held for trading or at FVTPL are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund has not classified any of its financial instruments as available-for-sale or assets held to maturity.

(ii) Held-for trading and fair value through profit or loss

Financial instruments classified as held-for-trading or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Fund's investments in securities and are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The Fund's investments in short-term Canadian debt securities are valued at their cost. This value, together with accrued interest, approximates fair value using closing prices.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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### 3. Significant accounting policies (continued):

The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

#### (iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Fund classifies cash, receivable for investments sold, subscriptions receivable, accrued interest and dividends receivable as loans and receivables.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

#### (iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund's other financial liabilities are comprised of accrued liabilities, payable for investments purchased and payable to holders of redeemable units.

#### (d) *Accounting estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts in these financial statements. Actual results may differ from these estimates.

#### (e) *Investment transactions, income, and transaction costs*

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Investment transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

Transaction costs, such as brokerage commissions included in the purchase and sale of securities by the Fund, incurred for financial instruments classified as FVTPL, are recognized in the Statement of comprehensive income in the year incurred. Transaction costs are incremental costs that are directly paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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### 3. Significant accounting policies (continued):

(f) *Translation of foreign currencies*

The Fund's subscriptions and redemptions are denominated in CAD, which is also its functional and presentation currency. Foreign currency assets and liabilities are translated into CAD at the rate of exchange prevailing on the year-end date except for the historical costs of investments which are translated at the rate of exchange prevailing on the date of purchase. The proceeds from sale of investments and investment income in foreign currencies are translated into CAD at the approximate rate of exchange prevailing on the dates of such transactions. Gains and losses from transactions in and the translation of foreign currencies are considered to be investment transactions and accordingly are included in the net gain or loss on investments.

(g) *Redeemable units*

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has designated the redeemable units as financial liabilities at FVTPL because they are managed and their performance evaluated on a fair value basis. The redeemable units provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the year. Refer to Note 14 for the calculation.

(h) *Unrealized appreciation or depreciation of investments*

The unrealized appreciation or depreciation of investments represents the aggregate of the difference between their average cost and fair value at the end of the reporting date.

(i) *Per unit amounts*

The net asset value per unit is calculated based on the number of units outstanding at the end of the year.

Increase (decrease) in net assets per unit in the Statement of comprehensive income represent the increase (decrease) in the net assets from operations excluding distributions, divided by the average number of units outstanding during the year.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

## 4. Changes in Significant Accounting Policies

The Fund has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 specifies the accounting for financial instruments, including: classification and measurement, impairment and hedge accounting. The Fund has elected not to restate comparative periods. The nature and effects of the key changes to the Fund's accounting policy are summarized below.

(i) Classification and measurement of financial assets and liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Fund may also, at initial recognition, irrevocably designate a financial asset as measured at FVTPL when doing so results in more relevant information. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

The adoption of IFRS 9 did not result in any measurement differences in the Fund's financial assets and liabilities as at the transition date. The following table shows the original classification and measurement categories under IAS 39 and the new classification and measurement categories under IFRS 9 for each class of the Fund's financial assets and financial liabilities as at 1 January 2018.

	Original Classification under IAS 39	New Classification under IFRS 9
<b>Financial assets</b>		
Cash	Loans and receivables	Amortized cost
Dividend receivable	Loans and receivables	Amortized cost
Interest receivable	Loans and receivables	Amortized cost
Short term notes	FVTPL	FVTPL
Investments	FVTPL	FVTPL
<b>Financial liabilities</b>		
Accrued liabilities	Other financial liabilities	Amortized cost
Payables to holders of redeemable units	Other financial liabilities	Amortized cost
Redeemable units	FVTPL	FVTPL

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 4. Changes in Significant Accounting Policies (continued)

(ii) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. As the Fund measures its financial assets at FVTPL or holds only short-term financial assets at amortized cost, the impairment requirements under the new standard do not impact these financial statements.

## 5. Taxation

The Fund is classified as a "Mutual Fund Trust" under the Income Tax Act (Canada). The Fund distributes to its unitholders all of its annual taxable income, including its taxable net realized capital gains, with the result that the Fund does not pay any income taxes. Accordingly, the Fund does not record any income taxes in its financial statements.

The Fund currently incurs withholding taxes imposed by the United States on dividend income at a rate of 15%. Such dividend income is recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statement of comprehensive income.

## 6. Distribution to Unitholders

The Fund makes annual distributions, typically in December, to unitholders of its taxable net investment income and the net realized capital gains on sale of investments. No distributions occur in years when there is no taxable net investment income or net realized capital gain on the sale of investments. During the year ended December 31, 2018, the fund distributed realized capital gains of \$4,356 (2017 – \$4,301) and net investment income of \$282 (2017 – \$734).

Distributed amounts are reinvested in additional units of the Fund unless a unitholder elects to receive his or her proportionate share of any distributions in cash.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

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## 7. Capital Disclosures

The capital of the Fund is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's net asset value per unit upon redemption. The Fund does not have any externally imposed capital requirements.

The relevant movements in capital are shown in the Statement of changes in net assets attributable to holders of redeemable units and Note 8. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 11, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

## 8. Redeemable Units

Unitholders' equity includes a fund's units outstanding, retained net investment income, net realized gains or losses on sale of investments, and the unrealized appreciation or depreciation of investments.

The Fund has two series of units, Series F and Series D, which are similar in all respects except that Series D units have a dealer compensation structure. Both series are only available to investors who purchase units from authorized third-party dealers. The number of units of each series that may be issued is unlimited. Subscriptions and redemptions may be transacted in either CAD or USD.

During the year ended December 31, 2018 and 2017, the number of units issued, redeemed and outstanding was as follows:

	<b>Series F</b>	<b>Series D</b>
<b>Units outstanding at January 1, 2018</b>	<b>1,808,366.983</b>	<b>221,218.448</b>
Redeemable units issued	73,126.754	45,109.495
Redeemable units issued on reinvestments	133,693.046	17,113.371
Redeemable units redeemed	(131,271.758)	(16,390.730)
<b>Units outstanding at December 31, 2018</b>	<b>1,883,915.025</b>	<b>267,050.584</b>

	<b>Series F</b>	<b>Series D</b>
<b>Units outstanding at January 1, 2017</b>	<b>1,714,397.645</b>	<b>322,636.928</b>
Redeemable units issued	195,255.286	14,345.870
Redeemable units issued on reinvestments	88,165.295	14,305.360
Inter-series unit transfer	10,268.401	(10,255.320)
Redeemable units redeemed	(199,719.644)	(119,814.390)
<b>Units outstanding at December 31, 2017</b>	<b>1,808,366.983</b>	<b>221,218.448</b>

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

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(In thousands of Canadian dollars, unless otherwise stated)

## 9. Management Fees and Other Expenses

The Manager provides research, accounting, sales, and management services and acts as investment advisor. Management fees are calculated daily and payable monthly at an annual rate of 0.70% of the net assets of each series of units of the Fund (2017: January to June – 0.90%; July to December – 0.70%).

Trailer fees, a form of dealer compensation, apply only to Series D units and are calculated daily and payable monthly at an annual rate of 0.30% of the net asset value of the Series D units.

For the year ended December 31, 2018, out of its all-in management fee, the Manager has disbursed Independent Review Committee fees in the amount of \$16 (2017 – \$17).

## 10. Financial Instruments

The following tables present the carrying amounts of the Fund's financial assets by category as at December 31, 2018. All of the Fund's financial liabilities as at December 31, 2018 were carried at amortized cost.

<b>Assets</b>	<b>Financial assets at FVTPL</b>	<b>Financial assets at amortized cost</b>	<b>Total</b>
Equity Investments	\$ 55,687	\$ -	\$ 55,687
Cash	-	9,407	9,407
Dividends receivable	-	36	36
<b>Total</b>	<b>\$ 55,687</b>	<b>\$ 9,443</b>	<b>\$ 65,130</b>

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

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## 10. Financial Instruments (continued)

The following table presents the carrying amounts of the Fund's financial assets by category at December 31, 2017. All of the Fund's financial liabilities as at December 31, 2017 were carried at amortized cost.

<b>Assets</b>	<b>Financial assets at FVTPL</b>	<b>Financial assets at amortized cost</b>	<b>Total</b>
Equity Investments	\$ 53,215	\$ -	\$ 53,215
Short-term Canadian Debt	2,246	-	2,246
Cash	-	8,958	8,958
Interest receivable	-	2	2
Subscriptions receivable	-	1	1
Broker receivable	-	7	7
Dividends receivable	-	15	15
<b>Total</b>	<b>\$ 55,461</b>	<b>\$ 8,983</b>	<b>\$ 64,444</b>

### *Fair Value Measurement*

The Fund classifies fair value measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3** Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

<b>As at December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 55,687	-	-	\$ 55,687

  

<b>As at December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 53,215	-	-	\$ 53,215
Short-term Canadian Debt	-	\$ 2,246	-	2,246

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 10. Financial Instruments (continued)

The carrying amount of the Fund's net assets attributable to redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 2 in the fair value hierarchy.

All fair value measurements above are recurring. Fair values are classified as Level 1 when the related security is actively traded and quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund only invests in Level 1 equities, upon analysis at December 31, 2018, there was no requirement to reclassify any of the securities.

## 11. Financial Risk Management

### *Investment Strategy*

The Fund aims to achieve long-term capital growth by investing primarily in equity securities of United States issuers. All equity securities are subject to normal market fluctuations and present a risk of loss of capital. The Manager manages this risk through a careful selection of securities. Securities are selected for key fundamental characteristics such as price earnings ratio, earnings growth and revenue growth. The goal is to identify securities of quality companies with financial strength and strong earnings growth that can be purchased at a reasonable price. The portfolio is monitored on a daily basis.

### *Financial Risk Management*

The Fund may be exposed to a variety of financial risks that are concentrated in its investment holdings. These financial risks include market risk (including interest rate risk, currency risk and price risk), liquidity risk, credit risk, and concentration risk. The Fund's overall risk management philosophy seeks to minimize the potential adverse effects of these risks on the Fund's financial performance. The maximum risk resulting from investing in financial instruments is the fair value of the financial instruments.

The Fund's risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 11. Financial Risk Management (continued)

### *Interest Rate Risk*

Interest rate risk represents the potential loss resulting from fluctuations in interest rates and has the greatest impact on longer term debt instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

Term to maturity	December 31, 2018 (%)	December 31, 2017 (%)
0-1 month	-	-
1-3 months	-	100
Total	-	100

Due to the short-term nature of the Fund's investments, the Fund has minimal sensitivity to changes in interest rates.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

## 11. Financial Risk Management (continued)

### *Currency Risk*

The Fund invests primarily in securities denominated in U.S. dollars and their value, expressed in Canadian dollars, is affected by changes in the rate of exchange between the Canadian and U.S. dollars. When the value of the Canadian dollar falls in relation to the U.S. dollar, then the value of the U.S. investments rises. When the value of the Canadian dollar rises, the value of the U.S. investments falls. Currency risk represents the potential loss that the Fund could incur from fluctuations in the Canadian dollar versus the U.S. dollar exchange rate. The Fund does not attempt to manage this risk.

The table below indicates the foreign currency to which the Fund had significant exposure at December 31, 2018, December 31, 2017, in CAD terms. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 10% in relation to the foreign currency with all other variables being held constant.

	Exposure			Impact of 10% change in Canadian Dollar on net assets attributable to holders of redeemable units		
	Investments	Cash	Total	Investments	Cash	Total
U.S. Dollar – December 31, 2018	\$ 55,687	\$ 4,375	\$60,062	\$ 5,569	\$ 438	\$ 6,006
% of net assets attributable to holders of redeemable units	85.56	6.72	92.28	8.56	0.67	9.23
U.S. Dollar – December 31, 2017	\$ 53,215	\$ 8,804	\$ 62,019	\$ 5,322	\$ 880	\$ 6,202
% of net assets attributable to holders of redeemable units	82.63	13.67	96.30	8.26	1.37	9.63

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

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## 11. Financial Risk Management (continued)

### *Other Price Risk*

The Fund is exposed to price risk, which is the risk that the fair value of equity securities will be affected by changes in general market conditions. Changes in market conditions are influenced by corporate developments, changes in interest rates, changes in the level of inflation, and other political and economic developments. Equity securities in certain companies or companies within a certain industry may fluctuate differently because of changes in outlook for those individual companies or the particular industry. The share price of companies with smaller market capitalization is usually more volatile than that of more established companies with larger market capitalization.

Smaller companies may be developing new products that have not yet been tested in the marketplace or their products may quickly become obsolete. They may also have limited resources, including limited access to funds or unproven management. Smaller companies may trade less frequently and in smaller volume than shares of large companies. They may have few shares outstanding so a sale or purchase of shares may have a greater impact on the share price. The value of shares in small capitalization companies may rise and fall dramatically.

The overall market exposures were as follows:

<b>Year</b>	<b>Fair Value (\$)</b>	<b>Net Assets (%)</b>
Investments at December 31, 2018	55,687	85.56
Investments at December 31, 2017	53,215	82.63

Management does not believe that there is a good way of predicting potential future relationships between the Fund's net assets and any given indices. Calculation of market risk is consistent with the industry norm of using a Beta calculation which is calculated based on observed historical changes in value in relationship to a given index. Management calculated the 3-year Beta of the Fund in relation to the S&P 500 Composite Index at 0.99 (December 31, 2017 – 1.05). Based on this number and, assuming all other variables are held constant, portfolio theory implies that a 10% move in the Index would have the following impact on net assets:

<b>Year</b>	<b>Benchmark</b>	<b>Change in Benchmark (%)</b>	<b>Impact on Net Assets (\$)</b>
December 31, 2018	S&P 500	+/- 10.00	+/- 5,513
December 31, 2017	S&P 500	+/- 10.00	+/- 5,588

The benchmark selected represents a general view of the Fund's investable universe. The S&P 500 Composite Index tracks the common share price of 500 leading United States companies. The Fund is not managed to mimic this benchmark.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

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## 11. Financial Risk Management (continued)

### *Liquidity Risk*

Liquidity risk represents the potential loss stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. The value of securities is subject to greater fluctuation if they are not traded regularly. The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values. Thin trading in a security could make it difficult to liquidate holdings quickly.

The Fund has no restrictions with regards to the market capitalization of its investments. If the Fund becomes more highly concentrated in stocks of companies with smaller market capitalization, liquidity risk will increase.

The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

#### **December 31, 2018**

<b>Financial liabilities</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
Accrued liabilities	\$ -	\$ 41	\$ 41

#### **December 31, 2017**

<b>Financial liabilities</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
Accrued liabilities	\$ -	\$ 41	\$ 41

### *Credit Risk*

Credit risk represents the potential loss that the Fund would incur if the counterparties failed to perform in accordance with the terms of their obligations to the Fund.

Payments to brokers for securities purchased are only made upon delivery of the securities to the Fund. Delivery to brokers for securities sold is only made once the Fund has received payment from the broker. Therefore the risk of default is considered minimal.

Credit risk is generally associated with derivative contracts and debt securities, such as bonds. The fund's portfolio did not include any short-term notes at December 31, 2018 (2017 - 100% had a credit rating of R-1 (high)).

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2018

(In thousands of Canadian dollars, unless otherwise stated)

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## 11. Financial Risk Management (continued)

### *Concentration Risk*

Concentration risk arises as a result of the concentration of exposure within the same category, whether it is geographic location, product type, or industry sector. The following is a summary of the Fund's concentration risk:

<b>Market Segment</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Capital Goods	3.70%	2.54%
Consumer Cyclical	4.32%	3.27%
Consumer Durables	3.60%	4.24%
Energy	8.68%	5.13%
Healthcare	21.10%	20.06%
Retail	1.79%	1.86%
Technology	40.48%	39.60%
Transportation	1.89%	2.47%
Other Net Assets	14.44%	20.83%

### *Capital Risk Management*

Units issued and outstanding are considered to be capital of the Fund. The Fund does not have any special capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders are entitled to require payment of the net asset value per unit of the Fund for all or any of the units of such unitholder by giving written notice to the Manager. The written notice must be received no later than 3:00 p.m., EST (12:00 p.m. Pacific), on the valuation day upon which the units are to be redeemed. Additionally, the notice must be irrevocable. The units are redeemed for cash equal to a pro rata share of the Fund's NAV.

## 12. Portfolio Transactions

Information as to portfolio transactions is available to unitholders without charge, on request to the Manager.

Commissions paid to investment dealers and brokers during the year ended December 31, 2018 amounted to \$31 (2017 - 40\$).

# North Growth U.S. Equity Advisor Fund

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## 13. Related Party Transactions

As at December 31, 2018, the Manager, and other entities under common control, own 58.67% (December 31, 2017 – 59.85%) of the units of the Fund.

Management fees paid to the Manager during the year ended December 31, 2018 amounted to \$487 (2017 – \$489).

Included in accounts payable and accrued liabilities at December 31, 2018 are management fees owing to the Manager in the amount of \$39 (December 31, 2017 – \$39).

## 14. Increase in Net Assets Attributable to Holders of Redeemable Units Per Unit

The increase in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2018 and 2017 is calculated as follows:

<b>2018</b>	<b>F</b>	<b>D</b>
Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)	\$ 1,685	\$ 146
Weighted average units outstanding during the year	1,805	246
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>	<b>\$ 0.93</b>	<b>\$ 0.59</b>

  

<b>2017</b>	<b>F</b>	<b>D</b>
Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)	\$ 8,083	\$ 1,285
Weighted average units outstanding during the year	1,665	258
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>	<b>\$ 4.85</b>	<b>\$ 4.98</b>