

# AUGUST 2019 MONTHLY REPORT

SEPTEMBER 12, 2019



## Fund Performance Update

Volatility spiked in August as U.S. equities registered their second monthly decline this year. The choppy trading action during what was supposed to be a subdued vacation month was driven primarily by two concerns: an escalation in U.S.-China trade tensions and a recession signal indicated by the bond market. These factors, in addition to ongoing geopolitical uncertainties such as Brexit and Hong Kong protests, and a continued slowdown in the global economy and corporate profits, weighed on the stock markets which have faced constant selling pressure of late.

### OUR CAUTIOUS VIEW BASED ON A MULTITUDE OF WORRIES

We have maintained a cautious outlook for U.S. equities since late 2016 / early 2017. Throughout 2017, against a favourable macroeconomic backdrop and solid corporate earnings growth, our tempered view was predicated on the near historical-high multiples of the U.S. stock market. Expensive equity valuations, combined with unprecedented levels of political uncertainty and geopolitical risks as well as extremely bullish market sentiment, suggested an elevated degree of investor complacency.

During 2018, corporate earnings growth was exceptionally strong reflecting the benefit of lower tax rates from the Tax Cuts and Jobs Act passed at the end of 2017. The price/earnings (P/E) multiples of U.S. stocks thus abated marginally. Increasingly, as the price gains in the stock market narrowed with outperformance limited to a small number of technology companies and speculative shares including unprofitable initial public offerings (IPOs), nervousness and anxiety permeated general market sentiment. Continuation of geopolitical tensions, the U.S.-China trade conflict, and the discordant political climate in the United States, along with a slight removal of monetary accommodation by the Fed (via rising interest rates), contributed to much angst in the markets.

Investor skittishness carried on into this year. Despite a significant rally across the major U.S. equity indices to date, aided largely by the shift in the Federal Reserve's monetary policy towards reducing rather than hiking rates, investor mood remains gloomy. Currently in the late stages of the longest U.S. economic expansion and longest bull market on record, global economic growth has been slowing since the end of 2018 and the S&P 500 Index has officially entered an earnings recession—defined by at least two consecutive quarters of declining earnings.

Recently, the durability of the U.S. economic expansion has been called into question by the inversion of the yield curve. Since mid-August, the 10-year Treasury yield began trading lower than that of the 2-year; such a move has historically been a reliable predictor of every recession over the past 50 years even though the downturn has not been immediate. The markets' focus on the collapse of long-term yields has exacerbated fears of a looming end-of-cycle recession and perpetuated pessimistic investor sentiment.

To be clear, the U.S. economy is not in a recession as the economic data continues to support a self-sustaining albeit moderating expansion that is old and growing older. However, foreign economic news remains weak, U.S. corporate profits are in a downtrend, and after more than a year of haphazard trade policy announcements, business confidence and capital expenditure in the United States have started to ebb. The unprecedented levels of uncertainty and risks facing the equity markets since late 2016 / early 2017 show no signs of diminishing.

The anxiety currently gripping financial markets, and investors' aversion to stocks and emphasis on risk instead of reward are not typical of the top of a market cycle. Yet this cycle has been truly atypical—ranging from the longevity to negative interest rates in various developed markets including Germany and Japan. What remains constant is that bull markets do come to an end and bear markets are a fact of life for long term equity investors. Predicting precisely the timing of market cycles though is a fool's errand that we are not engaged in.

We retain our bias towards caution based on a multitude of worries. As always, we believe stock selection is the key to outperformance, and we remain focused on the analysis of individual stocks that adhere to our long term "growth at a reasonable price" investment philosophy.

## TAX INFORMATION UPDATE

This year, Friday, December 13<sup>th</sup>, is the distribution date for both the North Growth U.S. Equity Fund and North Growth Canadian Equity Fund. At this time, we anticipate that the annual distributions for 2019 will be meaningfully lower than those of the previous two years.

We currently estimate that the distributions for the Funds this year, comprised almost entirely of capital gains, will be less than 5% of the unit price. Last year, the distribution for the U.S. Fund was approximately 15% of the unit price and for the Canadian Fund was about 4% of the unit price.

## U.S. EQUITY FUND

In August, the North Growth U.S. Equity Fund depreciated 3.8%. The Fund underperformed the S&P 500 which fell 1.6% and the NASDAQ Composite which lost 2.5%, but outperformed the smaller capitalization S&P 400 MidCap and S&P 600 SmallCap which declined 4.2% and 4.5% respectively. A continued weakening of the Canadian currency against its U.S. counterpart last month improved the Fund's return in Canadian dollars to -2.7% versus the S&P 500's -0.5% monthly return in Canadian dollars.

## CANADIAN EQUITY FUND

The North Growth Canadian Equity Fund, Series N, depreciated 2.5% in August, underperforming the S&P/TSX Composite which gained 0.4%. Year-to-date, the Fund is up 22.0% versus the S&P/TSX Composite's return of 17.1%.

## North Growth U.S. Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>-2.69</b>	<b>4.78</b>	<b>4.36</b>	<b>13.00</b>
S&P 500 in \$CDN	-0.48	5.03	7.17	15.33
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>-3.77</b>	<b>6.61</b>	<b>3.38</b>	<b>15.95</b>
S&P 500 \$U.S.	-1.58	6.87	6.15	18.34
S&P 400 MidCap \$U.S.	-4.19	4.35	-0.67	14.37
S&P 600 SmallCap \$U.S.	-4.51	3.77	-4.90	9.80
NASDAQ Composite \$U.S.	-2.46	7.13	6.30	20.90

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED AUGUST 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>1.77</b>	<b>11.10</b>	<b>11.90</b>	<b>14.59</b>	<b>9.61</b>	<b>10.77</b>	<b>12.60</b>
S&P 500 \$CDN	4.81	13.21	14.63	15.67	9.04	5.48	10.04
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>-0.06</b>	<b>10.60</b>	<b>7.49</b>	<b>12.39</b>	<b>9.52</b>	<b>11.41</b>	<b>12.32</b>
S&P 500 \$U.S.	2.92	12.70	10.11	13.45	8.95	6.09	9.76
S&P 400 MidCap \$U.S.	-6.43	8.06	7.22	12.85	9.81	9.65	11.69
S&P 600 SmallCap \$U.S.	-15.06	8.37	7.97	13.22	9.65	9.85	11.09
NASDAQ Composite \$U.S.	-0.69	16.50	13.05	16.17	11.58	6.52	*10.26

Source: Bloomberg "Total Return Analysis" as of September 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	\$ 45.88 CDN \$ 34.51 US
Total Assets in Fund	\$ 523.3 Million CDN

## North Growth Canadian Equity Fund, Series N

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund, Series N</b>	<b>-2.50</b>	<b>1.67</b>	<b>6.14</b>	<b>21.95</b>
S&P / TSX \$CDN	0.43	3.32	4.43	17.13

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

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	7 Yrs
<b>NGM Canadian Equity Fund, Series N</b>	<b>-2.16</b>	<b>6.53</b>	<b>9.47</b>	<b>7.70</b>	<b>4.19</b>	<b>11.62</b>
S&P / TSX \$CDN	4.35	7.18	7.20	7.57	4.10	7.86

\* 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 \$ 19.81 CDN

Total Assets in Fund \$ 42.9 Million CDN

## North Growth Canadian Money Market Fund

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

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.60</b>	<b>1.68</b>	<b>1.12</b>	<b>0.92</b>	<b>0.81</b>	<b>1.50</b>
30 Day Treasury Bill	N/A	1.64	1.06	0.88	0.82	1.50

*\* 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%.

We manage the portfolio to ensure high liquidity and have no intention to extend maturities in order to chase a few basis points. We believe our money market fund has superior liquidity characteristics due to its very low average maturity. 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.

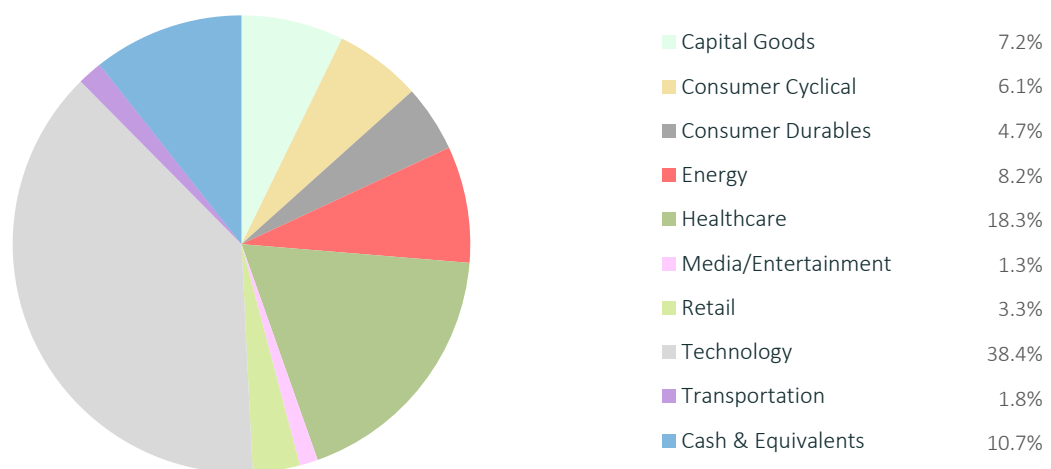


## Equity Fund Holdings and Composition

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

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.09
2	First Solar Inc.	4.10
3	Applied Materials Inc.	3.41
4	Intel Corporation	3.32
5	American Eagle Outfitters Inc.	3.15
6	Ciena Corp	3.01
7	SolarEdge Technologies Inc.	2.91
8	Amgen Inc.	2.83
9	Motorola Solutions Inc.	2.71
10	Zimmer Biomet Holdings Inc.	2.71
<b>Top 10</b>		<b>33.24</b>
<b>Total Equities</b>		<b>89.35</b>
<b>Cash</b>		<b>10.65</b>
<b>Total Assets</b>		<b>100.00</b>

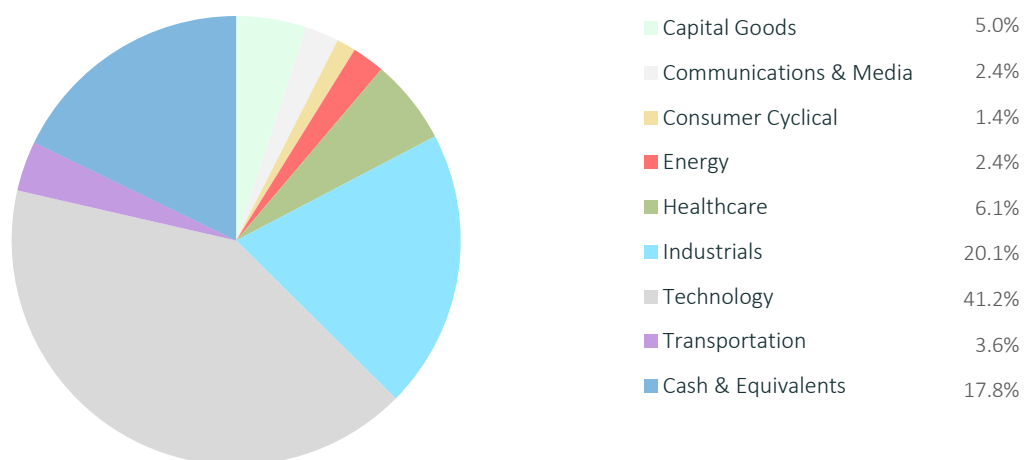
### U.S. EQUITY FUND — SECTOR MIX AS AT AUGUST 31, 2019



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

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	12.84
2	Hydrogenics Corp.	7.48
3	CAE Inc.	7.29
4	Heroux-Devtek Inc.	6.24
5	Open Text Corporation	6.17
6	ATS Automation Tooling Systems Inc.	5.04
7	Zymeworks Inc.	4.10
8	Bombardier Inc., Class B	4.06
9	EXFO Inc.	3.95
10	Sierra Wireless Inc.	3.82
<b>Top 10</b>		<b>60.99</b>
<b>Total Equities</b>		<b>82.19</b>
<b>Cash</b>		<b>17.81</b>
<b>Total Assets</b>		<b>100.00</b>

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

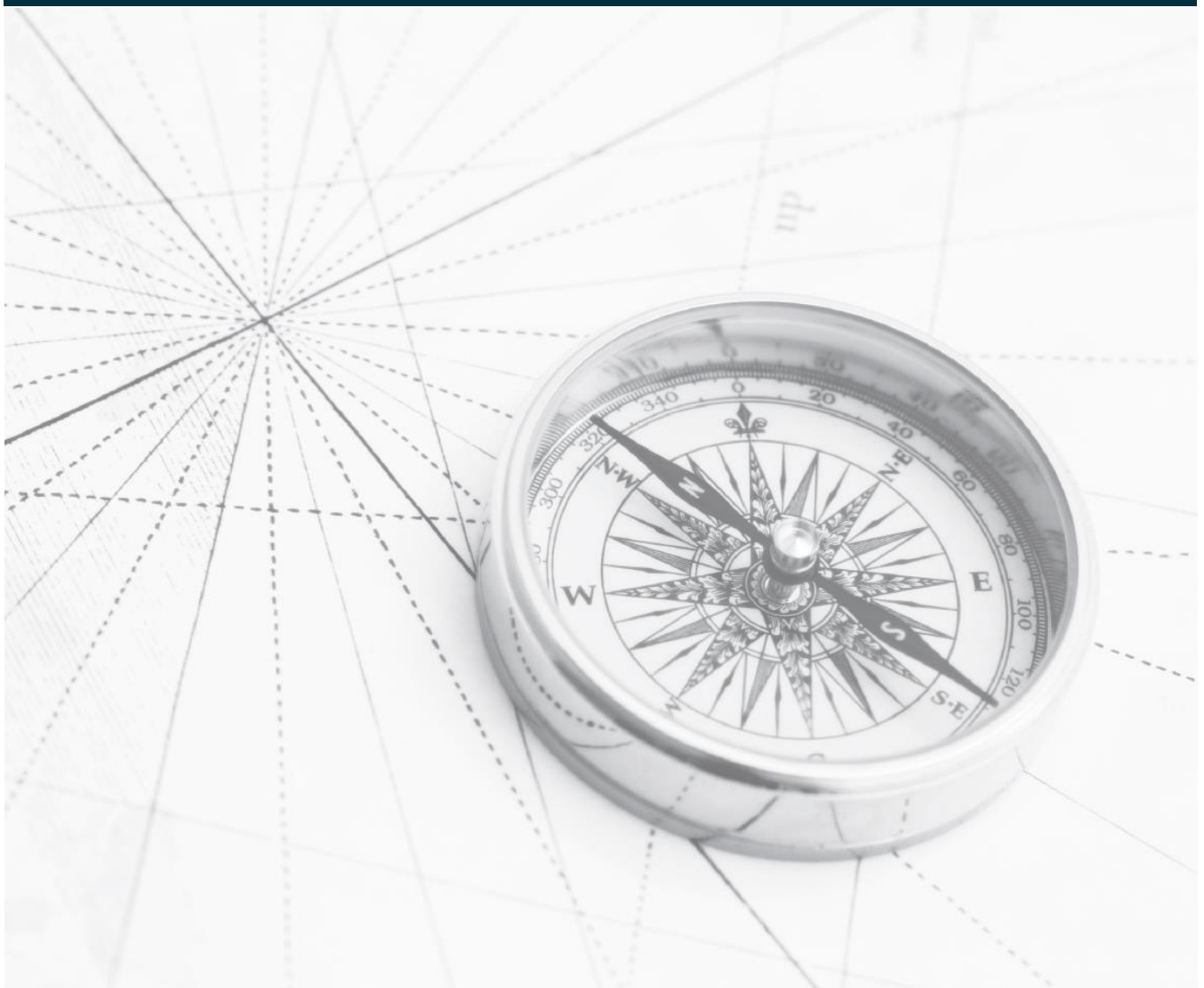
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### WHERE TO FIND NGM FUND PRICES

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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