



## OCTOBER 2019 MONTHLY REPORT

NOVEMBER 13, 2019



## Fund Performance Update

Optimism over lower interest rates as the Federal Reserve cut its target range for the federal funds rate for the third time this year, in addition to positive signals on easing U.S.-China trade tensions, propelled the U.S. stock indices to new highs in October. The third quarter earnings reporting season has been fully underway since late last month, and by and large, corporate profits are coming in ahead of analysts' lowered expectations even though they continue to decline year-over-year.

### OVERVALUATION IN AN EXTENDED CYCLE...

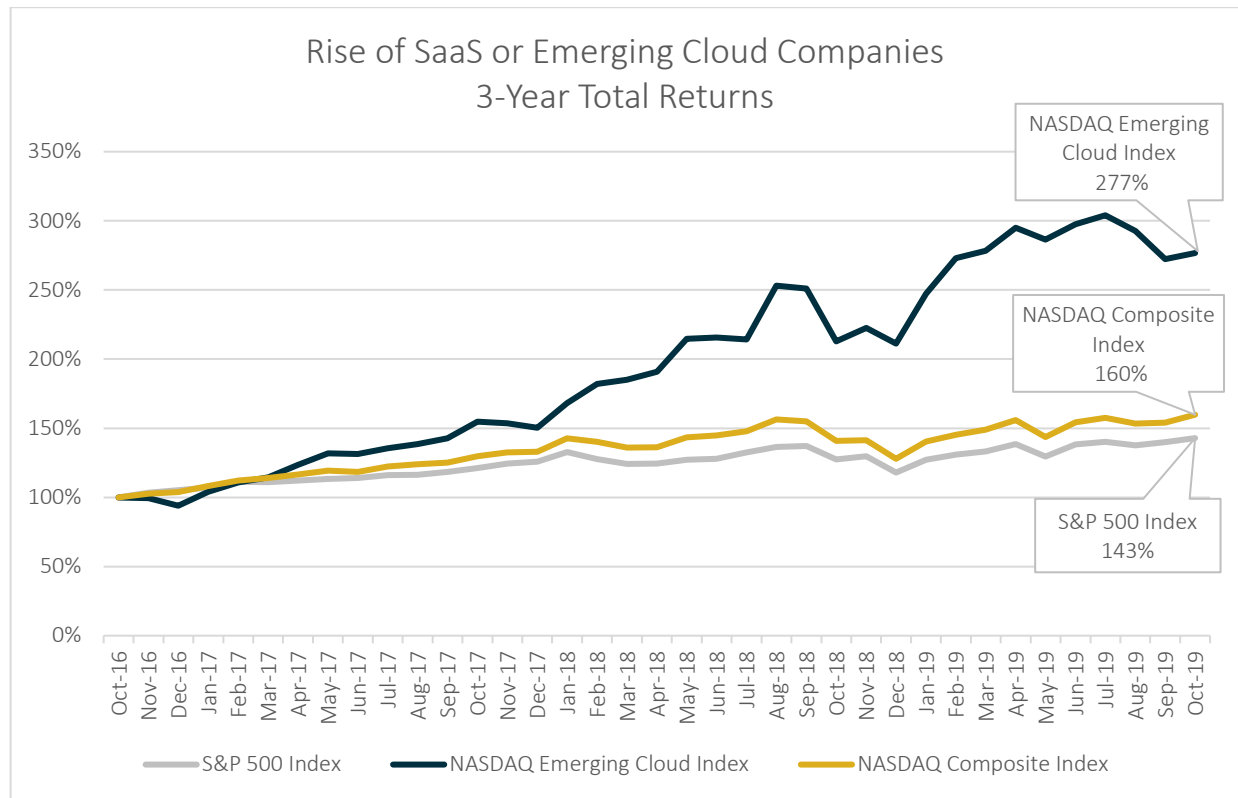
Concerns that equity prices are expensive relative to companies' earnings at a time when the U.S. and global economies are slowing during an aging economic and market expansion are legitimate. Even adopting the optimistic assumption that corporate profits will rebound to 10% growth in 2020, following a slight decline in 2019, stock multiples are at the higher end of the historical range of price/earnings (P/E) multiples on a forward 12-month basis. The forward 12-month P/E ratio for the S&P 500 is currently 17.2, above the five-year average of 16.6 and 10-year average of 14.9.

While there appears to be few signs of exuberance for equity investments overall, there is euphoria for selective groups of stocks with tremendous growth potential. The aura around such speculative names, clearly overvalued and fitting the "growth at any price" label, is characteristic of the excesses in a mature bull market. An example of these favoured groups is the emerging SaaS or software-as-a-service companies.

SaaS, a popular form of cloud computing, is a new software distribution model in which a service provider or software company hosts applications and makes them available to customers over the internet or via the cloud. By contrast to the traditional on-premise model of paying for software through a perpetual or term license with an upfront lump-sum cost and optional ongoing support fee, organizations typically pay for SaaS applications through an annual or monthly subscription fee.

Over the past several years, the widespread growth of web-based technology and cloud accessibility coupled with the affordability of the pay-as-you-go subscription licensing model has led to the rise of various SaaS companies. A number of emerging SaaS companies have expanded at a rapid rate, growing their sales by high double-digit percentages. The velocity of revenue growth at these young SaaS providers reflects the ongoing disruption of the traditional software delivery model, and for that reason market participants have been eager buyers of the stocks even as most of the companies are not profitable.

Capital gains as a result of extremely bullish sentiment have helped drive outsized performance of the emerging SaaS or cloud computing sector. In the past three years, the NASDAQ Emerging Cloud Index has returned 40.4% per annum versus 14.9% for the S&P 500 Index annualized.



The rise of SaaS allowing users to connect to and use applications over the internet is undoubtedly a significant trend that will continue to grow. Many of the technology holdings in the U.S. Fund, including Microsoft and Citrix Systems, are major players in SaaS and cloud computing. However, the pure-play emerging SaaS group of largely unprofitable companies does not fit our “growth at a reasonable price” investment philosophy. As always, we remain committed to and diligent in our adherence to our investment discipline.

## TAX INFORMATION

December 13<sup>th</sup> is the distribution date for both the North Growth U.S. Equity Fund and North Growth Canadian Equity Fund. We continue to anticipate that the annual distributions for 2019 will be meaningfully lower than those of the previous two years.

Even with around one month to go, it is important to emphasize that our guidance are estimates that could still change materially. At this time, we estimate the distribution for the U.S. Equity Fund to be approximately \$0.80 per unit or 2% of the unit price, and for the Canadian Equity Fund approximately \$0.50 per unit or 2% of the unit price. The U.S. Fund distribution is expected to consist of around 25% income and 75% capital gains while the Canadian Fund distribution will likely be entirely capital gains.

The distributions by the Funds are automatically reinvested in units of the respective Funds. If you would like to receive your distributions in cash, please notify us by Friday, November 29<sup>th</sup>.

## U.S. EQUITY FUND

In October, the North Growth U.S. Equity Fund appreciated 1.5% in U.S. dollars. Although the Fund outperformed the S&P 400 MidCap which was up 1.1%, it lagged the other indices we regularly follow: the S&P 500 which gained 2.2%, as well as the S&P 600 SmallCap and the NASDAQ Composite which increased 2.0% and 3.7% respectively. Continued strengthening of the Canadian currency against its U.S. counterpart last month reduced the Fund's return in Canadian dollars to 0.9% versus the S&P 500's 1.5% return in Canadian dollars.

## CANADIAN EQUITY FUND

The North Growth Canadian Equity Fund, Series N, appreciated 3.4% in October, vastly outperforming the S&P/TSX Composite which declined 0.9%. Year-to-date, the Fund is up 27.8% versus the S&P/TSX Composite's return of 18.1%.

## North Growth U.S. Equity Fund

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

	1 Month	3 Months	6 Months	YTD
<b>NGM U.S. Equity Fund \$CDN</b>	<b>0.86</b>	<b>-0.01</b>	<b>1.32</b>	<b>16.12</b>
S&P 500 in \$CDN	1.53	2.52	2.11	18.81
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>1.50</b>	<b>-0.10</b>	<b>3.35</b>	<b>20.37</b>
S&P 500 \$U.S.	2.17	2.43	4.16	23.16
S&P 400 MidCap \$U.S.	1.13	-0.14	0.10	19.20
S&P 600 SmallCap \$U.S.	1.95	0.60	-0.22	15.67
NASDAQ Composite \$U.S.	3.71	1.71	3.01	26.07

### ANNUALIZED RATES OF RETURN (%) FOR THE PERIOD ENDED OCTOBER 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>13.75</b>	<b>12.88</b>	<b>13.11</b>	<b>14.72</b>	<b>9.72</b>	<b>11.05</b>	<b>12.63</b>
S&P 500 \$CDN	14.48	14.19	14.26	15.95	9.62	5.53	10.09
<b>NGM U.S. Equity Fund \$U.S.</b>	<b>13.60</b>	<b>13.60</b>	<b>9.66</b>	<b>12.50</b>	<b>9.15</b>	<b>11.67</b>	<b>12.39</b>
S&P 500 \$U.S.	14.33	14.91	10.78	13.70	9.05	6.12	9.86
S&P 400 MidCap \$U.S.	9.02	10.79	8.37	13.21	9.78	9.78	11.78
S&P 600 SmallCap \$U.S.	3.24	11.73	8.81	13.91	9.52	10.13	11.23
NASDAQ Composite \$U.S.	14.80	18.26	13.73	16.43	11.35	6.31	*10.36

Source: Bloomberg "Total Return Analysis" as of November 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	\$ 47.14 CDN \$ 35.82 US
Total Assets in Fund	\$ 535.3 Million CDN

## North Growth Canadian Equity Fund, Series N

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

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund, Series N</b>	<b>3.36</b>	<b>2.16</b>	<b>10.70</b>	<b>27.78</b>
S&P / TSX \$CDN	-0.86	1.25	0.97	18.08

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

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	7 Yrs
<b>NGM Canadian Equity Fund, Series N*</b>	<b>14.14</b>	<b>2.25</b>	<b>11.80</b>	<b>9.21</b>	<b>6.08</b>	<b>12.06</b>
S&P / TSX \$CDN	13.25	4.59	6.84	8.28	5.57	6.70

\* 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 \$ 20.76 CDN

Total Assets in Fund \$ 44.1 Million CDN

## North Growth Canadian Money Market Fund

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

	*Current Yield	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
<b>NGM Canadian Money Market Fund</b>	<b>1.57</b>	<b>1.69</b>	<b>1.18</b>	<b>0.94</b>	<b>0.84</b>	<b>1.50</b>
30 Day Treasury Bill	N/A	1.66	1.13	0.91	0.85	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.

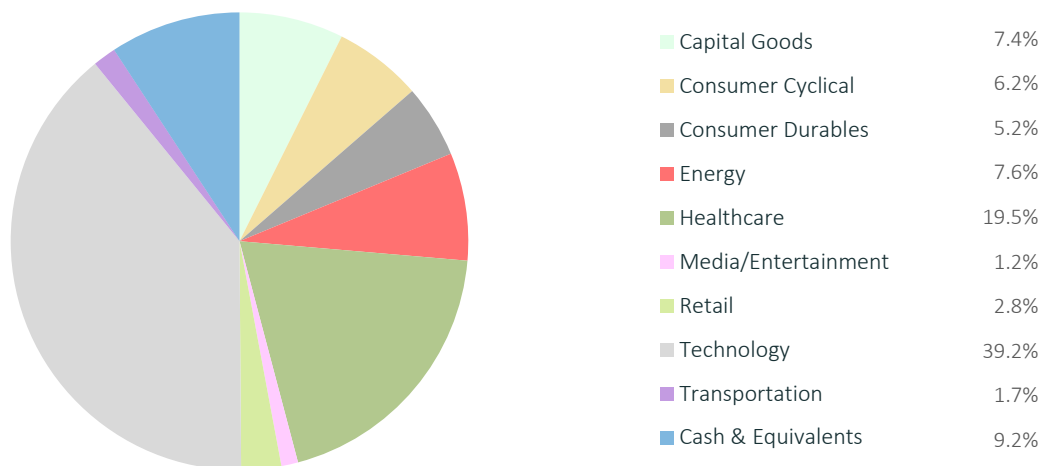


## Equity Fund Holdings and Composition

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

Ranking	Security	% of Net Assets
1	Cisco Systems Inc.	5.00
2	Intel Corporation	3.83
3	Applied Materials Inc.	3.73
4	First Solar Inc.	3.31
5	Jabil Inc.	3.23
6	Apple Inc.	3.04
7	SolarEdge Technologies Inc.	2.92
8	Amgen Inc.	2.80
9	American Eagle Outfitters Inc.	2.79
10	Itron Inc.	2.73
<b>Top 10</b>		<b>33.38</b>
<b>Total Equities</b>		<b>90.76</b>
<b>Cash</b>		<b>9.24</b>
<b>Total Assets</b>		<b>100.00</b>

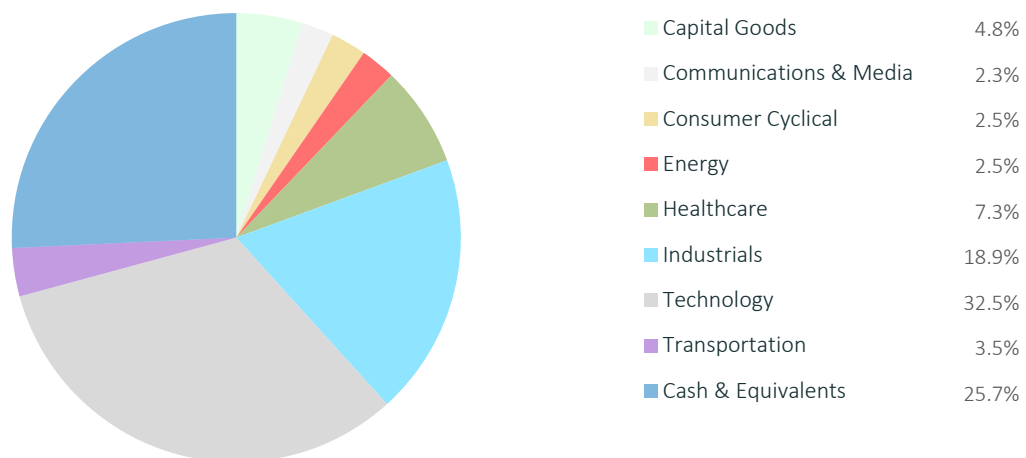
### U.S. EQUITY FUND — SECTOR MIX AS AT OCTOBER 31, 2019



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

Ranking	Security	% of Net Assets
1	Ballard Power Systems Inc.	10.94
2	CAE Inc.	6.72
3	Open Text Corporation	6.13
4	Heroux-Devtek Inc.	5.81
5	Zymeworks Inc.	5.07
6	ATS Automation Tooling Systems Inc.	4.77
7	EXFO Inc.	4.26
8	Bombardier Inc., Class B	3.82
9	Sierra Wireless Inc.	3.76
10	Westjet Airlines Ltd.	3.48
<b>Top 10</b>		<b>54.76</b>
<b>Total Equities</b>		<b>74.26</b>
<b>Cash</b>		<b>25.74</b>
<b>Total Assets</b>		<b>100.00</b>

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

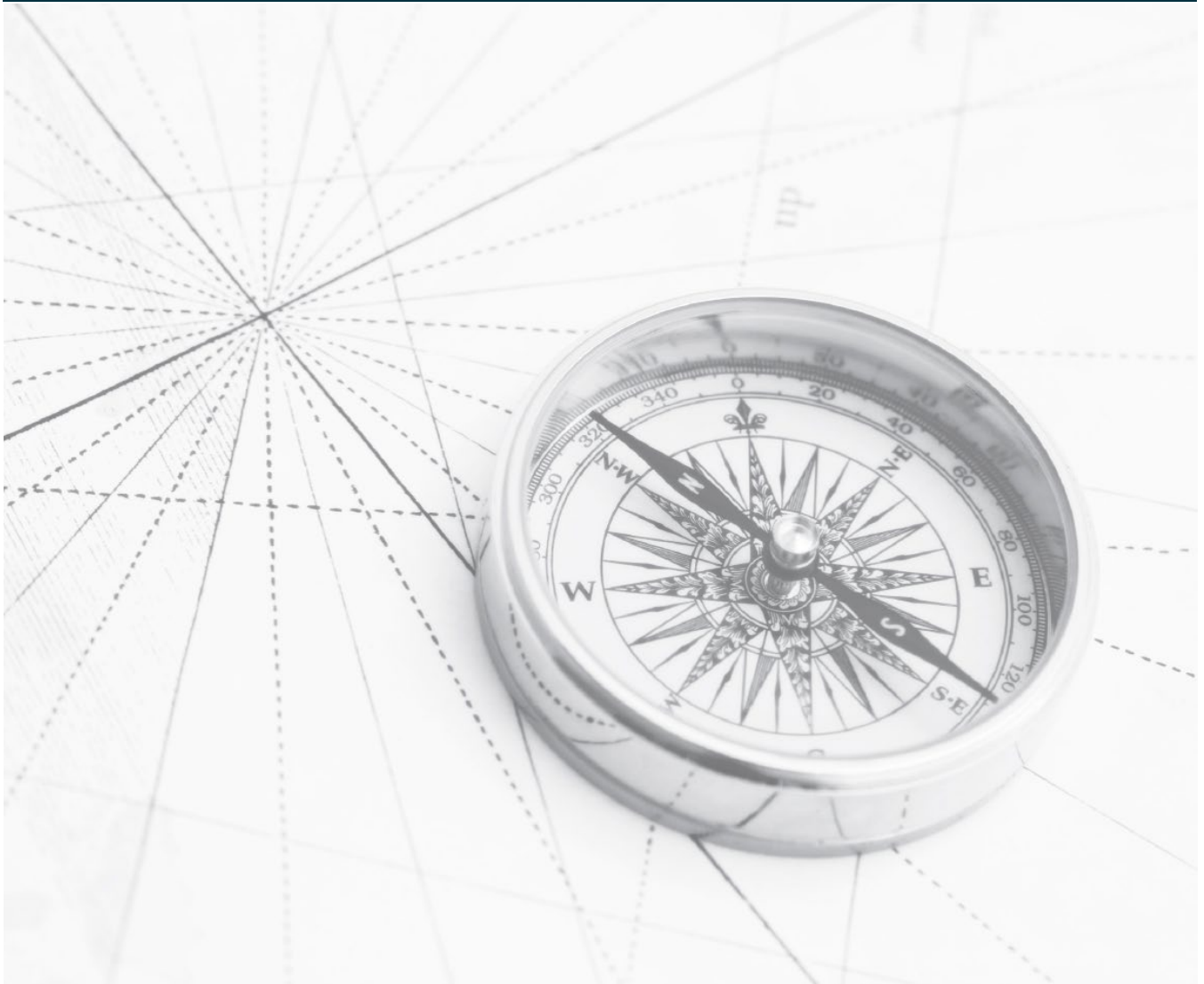
**North Growth Management Ltd.**

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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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