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ERICA LAU

CHIEF EXECUTIVE OFFICER AND LEAD PORTFOLIO MANAGER, NORTH GROWTH MANAGEMENT LTD., VANCOUVER

Fossil-free investing is now gaining momentum, but Vancouver-based North Growth Management has long been far ahead of the curve. The firm oversees $642 million in assets, and its North Growth U.S. Equity Fund sold its last energy stock 15 years ago. Launched by Rudy North (a co-founder of the former Phillips, Hager & North Investment Management Ltd.), the company also shuns tobacco stocks. Managers say these strategies haven't hurt long-term returns. Since its inception in 1992, the U.S. stock fund has outpaced the S&P 500. We asked veteran portfolio manager Erica Lau, 45, why she still eschews oil and gas, and is bullish on electronics retailer Best Buy.

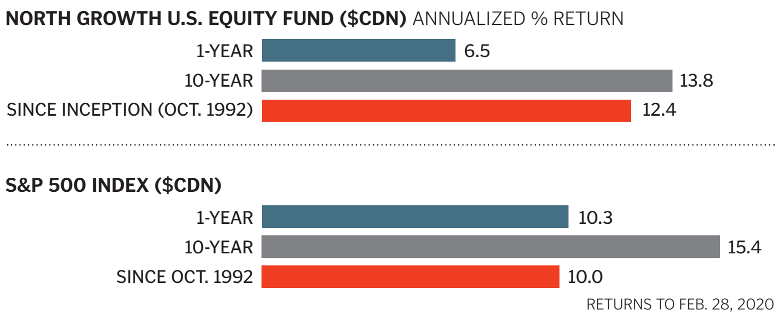
Investment giant BlackRock Inc. announced plans in January to shift out of fossil fuel stocks in its actively managed funds. Why did North Growth decide early on to avoid energy and tobacco?
We divested our last oil and gas stock, Chesapeake Energy, in 2005. At that time, oil and gas producers didn't meet our strategy to buy growth stocks at reasonable prices. Our fossil-free position has since evolved, and we now believe those investments don't offer compelling returns as the world shifts toward decarbonization to mitigate climate change. Oil and gas stocks are also pretty risky because they're a commodity play. We have never owned tobacco stocks, but that is a moral position of our founder, who believes other industries can offer equally attractive returns. E-cigarette, vaping and cannabis stocks are also prohibited.

How are you investing in energy now?
We have been investing in clean and renewable energy since 2010. We believe that non-carbon-based sources will capture the dominant share of global energy demand growth. We own First Solar, a manufacturer of solar panels. We also like SolarEdge Technologies, which makes power optimizers that attach to the back of solar panels and inverters, which harvest the power. It was the fund's top performer last year with a 163% gain. In our younger Canadian Equity Fund, we have long been shareholders of Ballard Power Systems, whose hydrogen fuel cells can power electric buses and trains. Fuel cells can be more effective than battery technology, which has limited range and use in heavy-duty vehicles. Ballard is not yet profitable, but we believe in the long-term story.

Where else do you see opportunities?
Our U.S. fund is invested 40% in technology and 20% in health care. As valuations rose, we reduced our weightings in Microsoft and Apple, which we have owned since the early 2000s. We've added smaller tech names, such as Motorola Solutions, a data communications and telecom equipment provider. In health care, we like Bristol-Myers Squibb after its purchase last year of Celgene, a biotech we owned. Bristol-Myers has a strong oncology franchise and can benefit from Celgene's drug pipeline. Medical device companies, such as Abbott Laboratories and Zimmer Biomet Holdings, have done well for us. We also own health insurer Anthem despite some U.S. Democratic presidential candidates calling for a publicly funded health care system. Political headwinds come and go. We just pay attention to the fundamentals.

Why do you own Best Buy when retailers are struggling?
We see value in this sector because some retailers have undergone a lot of changes. Best Buy shares gained 64% last year. It has grown earnings because of its online offerings and services. It owns Geek Squad tech support, and it bought Great Call and other companies to offer health care and technology services to seniors. We still like American Eagle Outfitters and Urban Outfitters, even though their stocks underperformed last year. Both retailers have strong balance sheets and omnichannel retail strategies. We believe those brands are still valuable to consumers.

What is your outlook for the U.S. stock market?
We have been cautious since 2017. We're in the longest U.S. economic expansion and bull market ever, with huge political uncertainty and geopolitical risks. The coronavirus will also have a negative impact globally. We expect slower economic growth and earnings this year. As a defensive move, we have diversified—we are holding more stocks that have smaller weightings. **/Shirley Won**



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