

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

Annual Financial Statements  
and Independent Auditors' Report to the Unitholders

Years Ended December 31, 2016,  
and December 31, 2015

# North Growth U.S. Equity Advisor Fund

December 31, 2016

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# North Growth U.S. Equity Advisor Fund

## Statements of financial position

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

	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Cash		\$ 2,758	\$ 802
Subscriptions receivable		52	29
Dividends receivable		37	47
Investments		57,092	57,030
		<b>59,939</b>	<b>57,908</b>
<b>Liabilities</b>			
Accrued liabilities	12	48	46
Redemptions payable		-	18
Payable for investments purchased		-	51
		<b>48</b>	<b>115</b>
<b>Net assets attributable to holders of redeemable units</b>		<b>\$ 59,891</b>	<b>\$ 57,793</b>
<b>Represented by:</b>			
<b>Net assets attributable to holders of redeemable units</b>			
<b>Series F</b>		<b>\$ 50,385</b>	<b>\$ 47,946</b>
<b>Series D</b>		<b>9,506</b>	<b>9,847</b>
<b>Net assets attributable to holders of redeemable units per unit</b>			
<b>Series F</b>		<b>\$ 29.39</b>	<b>\$ 28.96</b>
<b>Series D</b>		<b>29.46</b>	<b>29.04</b>

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

(Amounts in thousands of Canadian dollars except per unit amounts)

	Note	Year ended December 31,	
		2016	2015
<b>Revenue:</b>			
Dividend income		\$ 1,173	\$ 884
Foreign exchange (loss) gain on cash		(9)	(20)
Change in fair value of investments			
Net realized gain		3,812	2,015
Change in unrealized appreciation		(2,077)	7,493
<b>Total revenue</b>		<b>2,899</b>	<b>10,372</b>
<b>Expenses:</b>			
Management fees	8	513	551
Withholding taxes	4	154	133
Trailer fees	8	28	36
Transaction costs	11	27	16
<b>Total operating expenses</b>		<b>722</b>	<b>736</b>
<b>Increase in net assets attributable to holders of redeemable units, from operations excluding distributions</b>		<b>2,177</b>	<b>9,636</b>
<b>Distribution to holders of redeemable units</b>			
From net investment income	5	(487)	(137)
From net realized gain on investments	5	(778)	(317)
		(1,265)	(454)
<b>Increase in net assets attributable to holders of redeemable units, from operations</b>		<b>\$ 912</b>	<b>\$ 9,182</b>
<b>Increase in net assets attributable to holders of redeemable units, from operations</b>			
<b>Series F</b>		<b>\$ 784</b>	<b>\$ 7,632</b>
<b>Series D</b>		<b>128</b>	<b>1,550</b>
<b>Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)</b>			
<b>Series F</b>	13	<b>\$ 1,873</b>	<b>\$ 8,045</b>
<b>Series D</b>	13	<b>304</b>	<b>1,591</b>
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>			
<b>Series F</b>	13	<b>\$ 1.11</b>	<b>\$ 5.01</b>
<b>Series D</b>	13	<b>0.93</b>	<b>4.76</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)

#### 2016

	Series F	Series D
<b>Net assets attributable to holders of redeemable units at beginning of year</b>	<b>\$ 47,946</b>	<b>\$ 9,847</b>
Increase in net assets attributable to holders of redeemable units, from operations	784	128
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	5,378	615
Reinvestment of distributions to holders of redeemable units	547	165
Inter-series transfer of redeemable units	58	(58)
Redemption of redeemable units	(4,328)	(1,191)
<b>Net increase from redeemable unit transactions</b>	<b>1,655</b>	<b>(469)</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>2,439</b>	<b>(341)</b>
<b>Net assets attributable to holders of redeemable units at end of year</b>	<b>\$ 50,385</b>	<b>\$ 9,506</b>

#### 2015

	Series F	Series D
<b>Net assets attributable to holders of redeemable units at beginning of year</b>	<b>\$ 38,189</b>	<b>\$ 7,525</b>
Increase in net assets attributable to holders of redeemable units, from operations	7,632	1,550
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	3,870	1,587
Reinvestment of distributions to holders of redeemable units	413	41
Inter-series transfer of redeemable units	83	(83)
Redemption of redeemable units	(2,241)	(773)
<b>Net increase from redeemable unit transactions</b>	<b>2,125</b>	<b>772</b>
<b>Net increase in net assets attributable to holders of redeemable units</b>	<b>9,757</b>	<b>2,322</b>
<b>Net assets attributable to holders of redeemable units at end of year</b>	<b>\$ 47,946</b>	<b>\$ 9,847</b>

## North Growth U.S. Equity Advisor Fund

### Statements of cash flows

(Amounts in thousands of Canadian dollars)

	Year ended December 31,	
	2016	2015
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Increase in net assets attributable to holders of redeemable units, from operations	\$ 912	\$ 9,182
<b>Adjust for:</b>		
Foreign exchange (loss) gain on cash	(9)	(20)
Net realized gain on sale of investments	(3,812)	(1,930)
Dividend income	(1,173)	(884)
Withholding taxes on dividend income	154	133
Change in unrealized appreciation of investments	2,071	(7,493)
Purchases of investments	(10,573)	(8,085)
Proceeds from sale of investments	12,252	5,104
Accrued liabilities	(49)	47
Dividends received	1,029	731
<b>Net cash flow from operating activities</b>	<b>802</b>	<b>(3,215)</b>
<b>Financing activities</b>		
Reinvested distributions paid to holders of redeemable units	712	454
Proceeds from issuances of redeemable units	5,970	5,449
Amounts paid on redemption of redeemable units	(5,537)	(3,051)
<b>Net cash used in financing activities</b>	<b>1,145</b>	<b>2,852</b>
Foreign exchange loss (gain) on cash	9	20
Net increase in cash	1,947	(363)
Cash at beginning of year	802	1,145
<b>Cash at end of year</b>	<b>\$ 2,758</b>	<b>\$ 802</b>

**North Growth U.S. Equity Advisor Fund**  
**Schedule of investment portfolio**  
**December 31, 2016**

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

<b>Number of Shares</b>	<b>Foreign Common Shares</b>	<b>Cost</b>	<b>Carrying Value</b>
133	Cisco Systems Inc.	\$ 2,884	\$ 5,410
30	Apple Inc.	1,259	4,708
64	Intel Corporation	1,435	3,105
65	Applied Materials Inc.	1,271	2,801
33	Microsoft Corporation	898	2,740
120	American Eagle Outfitters Inc.	2,239	2,435
12	Anthem Inc.	774	2,350
55	General Electric Company	1,675	2,347
19	Citrix Systems Inc.	1,168	2,297
15	Zimmer Biomet Holdings Inc.	1,206	2,140
21	Texas Instruments Inc.	579	2,055
28	Cerner Corporation	1,107	1,767
6	Mohawk Industries Inc.	1,386	1,697
9	Amgen Inc.	1,141	1,691
95	DSP Group Inc.	804	1,671
15	Electronic Arts Inc.	251	1,623
16	Gilead Sciences Inc.	837	1,577
6	FedEx Corp.	1,216	1,575
34	Herman Miller Inc.	854	1,541
130	Pier 1 Imports Inc.	908	1,489
33	Pfizer Inc.	612	1,438
49	Boston Scientific Corporation	1,443	1,426
10	Varian Medical Systems Inc.	610	1,259
23	Johnson Controls International plc	1,386	1,253
25	Ethan Allen Interiors Inc.	608	1,226
22	Abbott Laboratories	1,134	1,140
66	SolarEdge Technologies Inc.	1,735	1,092
13	Itron Inc.	544	1,061
2	Adient PLC	143	178
<b>Total investments</b>		<b>\$ 32,107</b>	<b>\$ 57,092</b>

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(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 States 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 February 28, 2017.

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 periods in the financial statements.

### (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*

#### (i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss ("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 fair value through profit or loss in which case transaction costs are expensed as incurred.



# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued)

Financial assets and financial liabilities held for trading or at fair value through profit or loss 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 and 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 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 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, receivable from holders of redeemable units, accrued interest and dividends receivable as loans and receivables.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued)

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 and payable for investments purchased.

(c) *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.

Information about significant areas of estimation uncertainty, and critical judgement in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is presented in Note 9.

(d) *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 period 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.

(e) *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 period-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.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued)

### (f) *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 redeemable units, which are classified as financial liabilities at FVTPL and measured at redemption amount, 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 the statement of 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 period. Refer to Note 13 for the calculation.

### (g) *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.

### (h) *Per unit amounts*

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

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 period.

### (i) *Standards not yet adopted*

The Fund has not yet applied new or revised IFRS pronouncements not yet issued:

A number of new standards, amendments to standards and interpretations are not yet effective for year ended December 31, 2016, and have not been applied in preparing these financial statements.

The Fund has not applied the following new and revised IFRS pronouncements that have been issued but are not yet effective:

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 3. Significant Accounting Policies (continued)

IFRS 9, Financial Instruments, ("IFRS 9") will replace the guidance in IAS 39, Financial Instruments: Recognition and Measurements, and consists of three separate phases, which include classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. Accounting for macro hedging will be issued as a separate standard. In July 2014 the IASB decided that entities would be required to adopt IFRS 9 for annual periods beginning on or after January 1, 2018.

The Fund has not yet assessed the impact of these standards or determined whether it will early adopt these standards.

## 4. 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.

## 5. 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.

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.

## 6. 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 7. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 10, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

## 7. 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 years ended December 31, 2016 and 2015, the number of units issued, redeemed and outstanding was as follows:

	Series F	Series D
<b>Units outstanding at January 1, 2016</b>	<b>1,655,016.617</b>	<b>339,542.006</b>
Redeemable units issued	188,008.350	21,770.850
Redeemable units issued on reinvestments	18,481.248	5,543.779
Inter-series unit transfer	2,669.640	(2,664.854)
Redeemable units redeemed	(149,778.210)	(41,554.853)
<b>Units outstanding at December 31, 2016</b>	<b>1,714,397.645</b>	<b>322,636.928</b>
<b>Units outstanding at January 1, 2015</b>	<b>1,576,903.775</b>	<b>310,085.365</b>
Redeemable units issued	142,695.309	59,193.985
Redeemable units issued on reinvestments	14,347.035	1,344.056
Inter-series unit transfer	3,105.955	(3,105.711)
Redeemable units redeemed	(82,035.457)	(27,975.689)
<b>Units outstanding at December 31, 2015</b>	<b>1,655,016.617</b>	<b>339,542.006</b>

## 8. 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 0.90% of the net assets of each series of units of the Fund.

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, 2016, out of its all-in management fee, the Manager has disbursed Independent Review Committee fees in the amount of \$14 (2015 – \$14).

# North Growth U.S. Equity Advisor Fund

## Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

### 9. Financial instruments

The following tables present the carrying amounts of the Fund's financial assets by category as at December 31, 2016. All of the Fund's financial liabilities as at December 31, 2016 were carried at amortized cost.

Assets	Financial assets at FVTPL	Financial assets at amortized cost	Total
Investments	\$ 57,092	\$ -	\$ 57,092
Cash	-	2,758	2,758
Subscriptions receivable	-	52	52
Dividends receivable	-	37	37
<b>Total</b>	<b>\$ 57,092</b>	<b>\$ 2,847</b>	<b>\$ 59,939</b>

The following table presents the carrying amounts of the Fund's financial assets by category at December 31, 2015. All of the Fund's financial liabilities as at December 31, 2015 were carried at amortized cost.

Assets	Financial assets at FVTPL	Financial assets at amortized cost	Total
Investments	\$ 57,030	\$ -	\$ 57,030
Cash	-	802	802
Subscriptions receivable	-	29	29
Dividends receivable	-	47	47
<b>Total</b>	<b>\$ 57,030</b>	<b>\$ 878</b>	<b>\$ 57,908</b>

As the Fund does not have any financial assets classified as Held for Trading, the change in fair value of investments recorded in the Statements of comprehensive income are attributable to financial instruments designated at FVTPL for the years ended December 31, 2016 and 2015.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

## 9. Financial instruments (continued)

### *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, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 57,092	-	-	\$ 57,092

  

<b>As at December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 57,030	-	-	\$ 57,030

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, 2016, there was no requirement to reclassify any of the securities.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 10. 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.

### *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 Fund does not have any direct exposure to this risk factor with no cash balances invested in overnight deposits or short-term treasury notes.

### *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.



# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

## 10. Financial risk management (continued)

The table below indicates the foreign currency to which the Fund had significant exposure at December 31, 2016, December 31, 2015, 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, 2016	\$ 57,092	\$ 2,703	\$ 59,795	\$ 5,709	\$ 270	\$ 5,980
% of net assets attributable to holders of redeemable units	95.33	4.51	99.84	9.53	0.45	9.98
U.S. Dollar – December 31, 2015	\$ 57,030	\$ 373	\$ 57,403	\$ 5,703	\$ 37	\$ 5,740
% of net assets attributable to holders of redeemable units	98.68	0.65	99.33	9.87	0.07	9.93

### 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:

Period	Fair Value (\$)	Net Assets (%)
Investments at December 31, 2016	57,092	95.33
Investments at December 31, 2015	57,030	98.68

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 10. Financial risk management (continued)

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 1.07 (December 31, 2015 – 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:

Period	Benchmark	Change in Benchmark (%)	Impact on Net Assets (\$)
December 31, 2016	S&P 500	+/- 10.00	+/- 6,408
December 31, 2015	S&P 500	+/- 10.00	+/- 6,068

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.

### *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.

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

## 10. Financial risk management (continued)

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, 2016

Financial liabilities	On demand	< 3 months	Total
Accrued liabilities	\$ -	\$ 48	\$ 48

### December 31, 2015

Financial liabilities	On demand	< 3 months	Total
Accrued liabilities	\$ -	\$ 46	\$ 46
Redemptions payable	-	18	18
Payable for investments purchased	-	51	51

#### *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 does not invest in any derivatives or debt securities.

#### *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:

Market Segment	December 31, 2016	December 31, 2015
Capital Goods	8.08%	9.22%
Consumer Cyclical	4.07%	3.70%
Consumer Durables	7.45%	7.15%
Energy	1.82%	6.42%
Healthcare	21.74%	23.73%
Retail	2.49%	3.01%
Technology	47.04%	44.34%
Transportation	2.63%	1.10%
Other Net Assets	4.68%	1.33%

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

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## 10. Financial risk management (continued)

### *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.

## 11. 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, 2016 amounted to \$27 (2015 - \$16).

## 12. Related Party Transactions

As at December 31, 2016, the Manager, and other entities under common control, own 57.48% (December 31, 2015 – 58.35%) of the units of the Fund.

Management fees paid to the Manager during the year ended December 31, 2016 amounted to \$513 (2015 – \$551).

Included in accounts payable and accrued liabilities at December 31, 2016 are management fees owing to the Manager in the amount of \$46 (December 31, 2015 – \$44).

# North Growth U.S. Equity Advisor Fund

Notes to the financial statements

December 31, 2016

(In thousands of Canadian dollars, unless otherwise stated)

## 13. 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, 2016 and 2015 is calculated as follows:

<b>2016</b>	<b>F</b>	<b>D</b>
Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)	\$ 1,873	\$ 304
Weighted average units outstanding during the year	1,689	329
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>	<b>\$ 1.11</b>	<b>\$ 0.93</b>

  

<b>2015</b>	<b>F</b>	<b>D</b>
Increase in net assets attributable to holders of redeemable units, from operations (excluding distributions)	\$ 8,045	\$ 1,591
Weighted average units outstanding during the year	1,607	334
<b>Increase in net assets attributable to holders of redeemable units per unit, from operations (excluding distributions)</b>	<b>\$ 5.01</b>	<b>\$ 4.76</b>