

January 2008 was a volatile month for equities. The markets started the year exceptionally weak, and despite some recovery in the last few trading days of the month, all the major indices were down significantly in January. The S&P 500 Index fell 6.0% while the NASDAQ Composite declined 9.9%. US mid cap stocks, as represented by the S&P 400 Index, performed in line with the broad market during the month, losing 6.2%, while the S&P 600 SmallCap Index fared slightly better, falling 4.9%. The North Growth US Equity Fund declined 6.5% in January, lagging behind the S&P 500 by 0.5%. In Canadian dollars, the Fund was down 5.4% for the month versus the S&P 500's Canadian dollar monthly return of -4.8%.

Canadian equities also had a weak start to 2008, as reflected by the 4.7% decline in the S&P/TSX Composite Index. The North Growth Canadian Equity Fund fell 5.9% in January, underperforming the S&P/TSX by 1.2%.

Investors around the globe continue to worry about a US-led economic recession. With the collapse in subprime lending, contracting home prices, and tightened credit conditions for businesses and households, financial markets have been strained since late 2007. Investor sentiment remains pervasively negative in the new year.

The economic data reported so far in 2008 continues to indicate a slowing US economy, but does not, as suggested by the pessimistic tone in the markets, definitively signal a recession. In January, the Commerce Department reported that US GDP increased at an annual rate of 0.6% in the fourth quarter of 2007, down from the rapid 4.9% growth in the prior three months. While the fourth quarter pace of growth was less than economists' forecast, the increase in the ADP employment gauge was better than expected. ADP Employer Services estimated that companies added 130,000 workers in January, a sign that overall the labour markets are quite resilient.

Importantly, the economy has received a significant boost from the Federal Reserve which lowered its benchmark interest rate by a total of 1.25% to 3.00% in January. The Fed made a cut of 0.75% after an unscheduled meeting on January 22<sup>nd</sup>, then further reduced the federal funds rate by 0.50% on January 30<sup>th</sup>. The combination of the Fed's actions last month, in addition to its cumulative 1.00% cuts in short term rates during September to December 2007, marks the fastest easing of monetary policy since 1990. Drastically lower interest rates, along with government programs to help stabilize the home-loan market and a federal economic stimulus package, are all positioned to ward off a meaningful downturn in the US economy.

To date, just over 60% of the US Fund's holdings have reported their most recent quarterly earnings. Generally, we have been very pleased with the strong operating results of the majority of our companies—the reports so far show an average earnings growth of 24% for the quarter, above the expected 19% based on analysts' estimates. These solid results are certainly not reflective of a recessionary environment, and for the most part, corporate executives are constructive in the outlook for their businesses even while acknowledging the near term economic uncertainties.

Coupled with healthy earnings are attractive valuations. The current conditions are well suited for our “growth at a reasonable price” investment strategy, and as always, we will focus on careful stock selection to drive our performance over the long term.

Yours truly,

A handwritten signature in black ink, appearing to read "Erica Lau". The signature is fluid and cursive, with a period at the end.

Erica Lau, CFA

## NORTH GROWTH US EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending January 31, 2008

|                                 | 1 Month      | 3 Months      | 6 Months      | YTD          |
|---------------------------------|--------------|---------------|---------------|--------------|
| <b>NGM US Equity Fund \$CDN</b> | <b>-5.35</b> | <b>-7.74</b>  | <b>-12.01</b> | <b>-5.35</b> |
| S&P 500 \$CDN                   | -4.81        | -4.96         | -9.97         | -4.81        |
| <b>NGM US Equity Fund \$US</b>  | <b>-6.53</b> | <b>-13.17</b> | <b>-6.49</b>  | <b>-6.53</b> |
| S&P 500 \$US                    | -6.00        | -10.55        | -4.32         | -6.00        |
| S&P 400 MidCap \$US             | -6.16        | -11.06        | -5.44         | -6.16        |
| S&P 600 SmallCap \$US           | -4.89        | -12.65        | -8.00         | -4.89        |
| NASDAQ Composite \$US           | -9.86        | -16.25        | -5.76         | -9.86        |

## NORTH GROWTH US EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending January 31, 2008

|                                 | 1 Year        | 3 Years      | 5 Years      | 10 Years     | 15 Years     | Since Inception |
|---------------------------------|---------------|--------------|--------------|--------------|--------------|-----------------|
| <b>NGM US Equity Fund \$CDN</b> | <b>-18.25</b> | <b>-0.47</b> | <b>6.60</b>  | <b>8.80</b>  | <b>12.14</b> | <b>13.36</b>    |
| S&P 500 \$CDN                   | -16.69        | -0.05        | 3.09         | 1.31         | 8.28         | 8.79            |
| <b>NGM US Equity Fund \$US</b>  | <b>-4.15</b>  | <b>6.82</b>  | <b>15.84</b> | <b>12.92</b> | <b>13.89</b> | <b>14.96</b>    |
| S&P 500 \$US                    | -2.31         | 7.28         | 12.04        | 5.14         | 9.98         | 10.32           |
| S&P 400 MidCap \$US             | -2.23         | 8.89         | 15.41        | 10.70        | 12.78        | 13.53           |
| S&P 600 SmallCap \$US           | -7.08         | 6.35         | 15.69        | 8.70         | 11.14        | 12.33           |
| NASDAQ Composite \$US           | -2.25         | 5.85         | 13.33        | 4.48         | 8.56*        | 9.74*           |

Source: Bloomberg "Total Return Analysis" as of February 1, 2008.

\*These returns are a simple price appreciation because total return data is not available on Bloomberg.

The inception of the Fund: October 13, 1992.

**NAVPS: Jan. 31, 2008 \$21.70 CDN**  
**\$21.62 US**

**Total Assets in Fund \$239.0 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending January 31, 2008

|                                 | 1 Month      | 3 Months      | 6 Months      | YTD          |
|---------------------------------|--------------|---------------|---------------|--------------|
| <b>NGM Canadian Equity Fund</b> | <b>-5.89</b> | <b>-13.71</b> | <b>-22.66</b> | <b>-5.89</b> |
| S&P / TSX \$CDN                 | -4.72        | -9.45         | -3.91         | -4.72        |

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending January 31, 2008

|                                 | 1 Year        | 3 Years      | 5 Years     | *Since<br>Takeover | **Since<br>Inception |
|---------------------------------|---------------|--------------|-------------|--------------------|----------------------|
| <b>NGM Canadian Equity Fund</b> | <b>-18.21</b> | <b>-1.27</b> | <b>3.80</b> | <b>4.74</b>        | <b>3.44</b>          |
| S&P / TSX \$CDN                 | 3.46          | 15.21        | 17.31       | 18.10              | 4.12                 |

\*North Growth Management Ltd. took over the Canadian Equity Fund's management contract on May 1, 2003.

\*\*The inception of the Canadian Equity Fund: September 1, 2000.

**NAVPS: Jan. 31, 2008 \$ 10.59 CDN**

**Total Assets in Fund \$ 18.3 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending January 31, 2008**

|                                  | *CURRENT<br>YIELD | 1 Year      | 3 Years     | 5 Years     |
|----------------------------------|-------------------|-------------|-------------|-------------|
| <b>NGM CDN Money Market Fund</b> | <b>3.99</b>       | <b>4.34</b> | <b>3.59</b> | <b>3.09</b> |
| 30 Day T-Bill                    | N/A               | 4.25        | 3.64        | 3.20        |

*\* 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.*

The North Growth Canadian Money Market Fund is consistently one of the highest yielding money market funds in Canada – not because we waste any time searching for basis points along the yield curve but because at **0.25%** the Fund's management fee is one of the **lowest in Canada**. We manage the Fund simply by creating a well-diversified portfolio of very short term, top credit quality notes and believe the product is a good proxy for the risk free rate\*. We maintain the average maturity of the Fund at near 15 days, meaning that we essentially roll over the entire portfolio every 30 days. As a result, the Fund's current yield will rapidly follow any changes (up or down) in the Bank of Canada's overnight rate.

The accountant's fees for the annual audit are greater than the annual management fees, so North Growth Management takes a small loss on the product. We don't mind because we offer the product as a service to our clients. We also believe an inflation protected liquidity product, such as our money market fund is an underutilized asset class that could improve the overall financial planning of many of our clients. This may seem strange coming from a firm notorious for its opinion that bonds are essentially an inferior asset class that offer inadequate returns for their inherent risk, but we can lay out a strong theoretical argument that you can create a superior portfolio using equities and money market than you can using equities and mid to long term bonds.

For retirees living off their financial assets, we believe that using a client's own personal cash requirements and risk tolerance to determine their appropriate mix of money market and equities, can, in most instances, create a superior portfolio to the all too pervasive industry staple 60/40 equity/bond split. For clients seeking a truly personalized retirement plan we encourage you to make an appointment to come in and get a fresh look at your plan from the North Growth Management investment professionals.

\*The risk free rate is the theoretical rate of return of an investment with zero risk. The North Growth Canadian Money Market is not a risk free investment and is not covered by the CDIC (Canadian Deposit Insurance Corporation).

**INVESTING WITH NORTH GROWTH MANAGEMENT:**

North Growth Management is a focused firm. 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 4 p.m. Eastern time or 1 p.m. Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to **RBC Dexia Investor Services Trust**. For security reasons, instructions can only be accepted by mail or by fax to:

North Growth Management Ltd.  
Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

Fax: 604-688-5402

**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. Alternatively, the Globe & Mail reports prices on [www.globefund.com](http://www.globefund.com).