

May was a good month for equities across the globe, including those in the US. Strong market breadth resulted in the S&P 400 MidCap and S&P 600 SmallCap leading the major indices with impressive monthly returns of 5.0% and 4.6% respectively. The S&P 500 Index gained 3.5% in May, while the technology-centric NASDAQ Composite was up 3.3%. The North Growth US Equity Fund advanced 3.2% for the month, underperforming all the indices we follow. The Canadian dollar continued to strengthen against its US counterpart in May by 3.8%, bringing the Fund's monthly return in Canadian dollars to -0.5%. Year-to-date, in Canadian dollars, the US Fund is down 1.6% versus the S&P 500 which is down 0.2%.

The Canadian market, as represented by the S&P/TSX Composite Index, also delivered strong results in May, gaining 5.0%. Following a solid relative performance in April, the North Growth Canadian Equity Fund lagged the broad market during May with its 2.2% monthly return. We continue to emphasize that the Canadian market's rally on the heels of an inflated commodities cycle is not sustainable, making a significant weakening in the S&P/TSX very likely. The Canadian Fund is well positioned to outperform the Index not only with its lack of exposure to the overvalued commodities sectors, but also, as we stated in last month's report, with the long term fundamentals of the Fund's core holdings beginning to gain recognition by the market.

Subsequent to an active earnings reporting period, news flow in the US was relatively light during May. Market participants continue to be myopic in their focus on the economy, scrutinizing each minute piece of data. The stock market reaction to an individual news release is difficult to comprehend as it appears to depend on the prevailing mood of the day. For instance, stronger than expected economic data may be viewed positively in light that the US is not headed into a recession, or negatively in that the odds of an interest rate cut have diminished. In general, the broad picture remains that the US economy is in a mild slowdown with the Fed Funds rate stable at 5.25% since June 2006 and inflation contained. This is a healthy environment for US equities.

Recently, there has been increasing media coverage on the Chinese stock market which posted a couple of days of dramatic declines starting at the end of May. On May 30<sup>th</sup>, the Chinese government tripled the tax on security transactions in an effort to cool the stock market rally that draws over 250,000 new retail investors a day. This led to a 6.5% decline in the Shanghai Composite Index that day, and on June 4<sup>th</sup>, the market closed down another 8.3%. Still, Shanghai's benchmark index is up over 40% year-to-date on top of a 130% gain in 2006. With many investors including pensioners and students crowding into Chinese equities, China's stock market exhibits virtually all the classic signs of a bubble. And so, as voiced by former Federal Reserve Chairman Alan Greenspan, "there is going to be a dramatic contraction at some point."

While a collapse in the Chinese markets may affect investor sentiment in the US temporarily, there should not be any lasting consequences. Far from the euphoria surrounding Chinese equities, market sentiment towards US stocks remains lackluster. In fact, while investors have been chasing foreign equities in the past few years, they have shunned the US markets. The S&P 500 Index trades at 18 times trailing 12-month earnings as compared to the Shanghai exchange where stocks trade at a trailing P/E ratio of 50 (source: Wachovia Securities). In certain respects, the Chinese markets today resemble the situation in the US in the late 1990s prior to 2000. Back then, there was pervasive bullishness about owning US equities and the S&P 500 was trading at a record-high valuation of over 30 times trailing earnings in 1999. This is definitely not the case now!

Against the backdrop of a benign economic environment, and with many of the world's best quality companies reasonably valued in the most diverse and liquid market, US stocks continue to present attractive investments. The North Growth US Equity Fund remains partial towards large capitalization technology shares. Having strong earnings growth prospects, pristine balance sheets and P/E multiples at the lower end of their historic range, large cap tech stocks currently fit our "growth at a reasonable price" philosophy. We are confident that a period of robust returns lies ahead for the US equity markets and that the Fund's positioning will lead to outperformance.

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 MAY 31, 2007**

	1 Month	3 Months	6 Months	YTD
<b>NGM US Equity Fund \$CDN</b>	<b>-0.53%</b>	<b>-1.61%</b>	<b>0.64%</b>	<b>-1.59%</b>
S&P 500 \$CDN	-0.29%	-0.08%	3.28%	-0.18%
<b>NGM US Equity Fund \$US</b>	<b>3.24%</b>	<b>7.60%</b>	<b>7.48%</b>	<b>7.23%</b>
S&P 500 \$US	3.49%	9.28%	10.29%	8.77%
S&P 400 MidCap \$US	5.01%	9.66%	13.92%	14.48%
S&P 600 SmallCap \$US	4.60%	8.73%	10.35%	10.36%
NASDAQ Composite \$US	3.25%	8.00%	7.50%	8.17%

**NORTH GROWTH US EQUITY FUND  
ANNUALIZED RATES OF RETURN FOR PERIODS ENDING MAY 31, 2007**

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>NGM US Equity Fund \$CDN</b>	<b>15.86%</b>	<b>5.97%</b>	<b>9.30%</b>	<b>12.03%</b>	<b>15.23%</b>
S&P 500 \$CDN	19.24%	4.24%	1.92%	5.08%	10.38%
<b>NGM US Equity Fund \$US</b>	<b>19.32%</b>	<b>14.90%</b>	<b>17.38%</b>	<b>14.91%</b>	<b>16.42%</b>
S&P 500 \$US	22.79%	13.03%	9.45%	7.78%	11.52%
S&P 400 MidCap \$US	21.18%	16.87%	12.95%	13.94%	15.14%
S&P 600 SmallCap \$US	17.99%	17.18%	13.52%	11.94%	N/A
NASDAQ Composite \$US*	20.39%	10.24%	10.70%	6.90%	10.86%

Source: Bloomberg "Total Return Analysis" as of June 1, 2007.

\*The return since inception for this index is a Simple Price Appreciation because total return data is not available on Bloomberg.

The inception of the Fund: October 13, 1992.

**NAVPS: May 31, 2007    \$ 25.34 CDN  
  \$ 23.69 US**

**Total Assets in Fund    \$ 282.9 Million CDN**

**NORTH GROWTH CANADIAN EQUITY FUND  
SHORT TERM RATES OF RETURN FOR PERIODS ENDING MAY 31, 2007**

	<b>1 Month</b>	<b>3 Months</b>	<b>6 Months</b>	<b>YTD</b>
<b>NGM Canadian Equity Fund</b>	<b>2.15%</b>	<b>5.94%</b>	<b>11.18%</b>	<b>6.14%</b>
S&P / TSX \$CDN	4.99%	8.42%	11.60%	9.95%

**NORTH GROWTH CANADIAN EQUITY FUND  
ANNUALIZED RATES OF RETURN FOR PERIODS ENDING MAY 31, 2007**

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>*Since Takeover</b>	<b>**Since Inception</b>
<b>NGM Canadian Equity Fund</b>	<b>9.38%</b>	<b>7.71%</b>	<b>5.88%</b>	<b>11.85%</b>	<b>7.50%</b>
S&P / TSX \$CDN	22.73%	21.14%	15.21%	22.83%	5.31%

*\*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: May 31, 2007 \$ 13.42 CDN**

**Total Assets in Fund \$ 26.9 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND  
ANNUALIZED RATES OF RETURNS FOR PERIODS ENDING MAY 31, 2007**

	* CURRENT YIELD	1 Year	3 Years	5 Years
<b>NGM CDN Money Market Fund</b>	<b>4.07%</b>	<b>4.12%</b>	<b>3.04%</b>	<b>2.83%</b>
30 Day T-Bill	4.20%	4.21%	3.19%	2.98%

*\* The Current Yield for the Money Market Fund is the average of the annualized daily yield for the most recent seven day period.*

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).