



# OCTOBER MONTHLY REPORT

*November 5, 2003*

US equity markets rallied strongly in October, fueled by very positive third quarter earnings reports. The North Growth US Equity Fund's 9.87% monthly return in US dollars beat all the indices we normally track, and was over 4% above the return of the S&P 500 Index. Over the past 12 months, to October 31, 2003, the Fund grew 48.67% versus 20.80% for the S&P 500.

More important than the short-term fluctuations of the Fund is its performance over the long term. Over the past five years, to October 31, 2003, the average annual return for the North Growth US Equity Fund was 21.55% in US dollars compared to 0.53% for the S&P 500. To put this into perspective, US\$100,000 invested in the North Growth US Equity Fund five years ago would now be worth US\$265,364, while the same investment in the S&P 500 would be worth only US\$102,675. We are also very pleased with the Fund's current ten-year average annual return of 16.80% in US dollars, a record high since the Fund began reporting a ten-year return in October, 2002.

Growing corporate profits and clear evidence of a vigorous economic expansion were the highlights during October. With the majority of the S&P 500 companies having reported, over 65% of the reports generated positive surprises. Thomson Financial estimates that third quarter earnings rose an average of 21.5%. Such extraordinarily strong earnings were based on not only cost cutting, but also higher revenue growth. We continue to believe that there is still much room for earnings to grow given the significant operating leverage of many businesses and a positive economic outlook. In fact, consensus earnings estimates for the fourth quarter and next year appear to be low for many companies.

On October 30<sup>th</sup>, the Commerce Department reported that the US economy expanded at a 7.2% annual rate during the third quarter, the fastest since 1984. The GDP report indicated increased spending by consumers, exports and residential construction, and importantly, increased investment by businesses at an 11% annual rate. Importantly inventory building has not yet contributed to economic growth, infact during the third quarter inventory draw downs actually reduced GDP growth by approximately 0.6%. Inevitably, the rebuilding of inventories will provide further stimulus for the economy. Also encouraging are the recent hiring announcements from companies such as UPS, IBM, United Airlines and Estee Lauder.

An issue that has become an increasing concern for Canadian based investors in US equities has been the appreciating Canadian dollar, or conversely, the weakening US dollar. Year-to-date, the Canadian dollar has strengthened over 23% against the US dollar. This is reflected in the performance of the North Growth US Equity Fund which has gained almost 43% in US dollars since the beginning of the year but only 19% in Canadian dollars. Since late 2001, North Growth Management has highlighted the risk that an upward trend in the Loonie could pose to the Canadian dollar returns from owning US equities. We discussed this topic in detail in the 2001 and 2002 Annual Reports.

On May 1<sup>st</sup>, 2003, we introduced the proprietary NGM Currency Hedge Limited Partnership to clients as a product that enables investors in the North Growth US Equity Fund to eliminate the majority of their direct exposure to the US/Canadian dollar fluctuations. However, as the Limited Partnership is complicated and available only to those clients who meet the Accredited Investor criteria as defined by the BC Securities Commission, only a small minority of the unitholders in the North Growth US Equity Fund have subscribed to the currency hedge product.



At the end of October, the limited partners in the NGM Currency Hedge Limited Partnership, acting on the advice given by North Growth Management, reduced the amount of their hedge from approximately 90% of their holdings in the North Growth US Equity Fund to approximately 50%. We are not currency forecasters and did not provide the recommendation based on speculation about the direction of the Canadian dollar. Rather, we feel that as a result of the significant strengthening of the Canadian dollar since the beginning of 2003, the currency risk has been dramatically reduced. Accordingly, it is appropriate that the hedged amount be lowered.

North Growth Management is pleased to announce that effective October 1<sup>st</sup>, we have expanded the portfolio management team by two new members, Cynthia Yen and Jamie Kozak. We are excited to have Cynthia and Jamie join our team and look forward to working with them to continue to deliver superior long-term returns to the unitholders of the Fund.

We are encouraged by the trends in corporate earnings and the economy and believe that this is a good environment for our “Growth at a Reasonable Price” investment style. The North Growth US Equity Fund remains fully invested and positioned for long-term growth.

Erica Lau

#### 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 lists the Funds under the following headings: **Mutual Fund** - NGM US Equity Fund; **Pooled Fund** - NGM Cdn. Equity Fund; **Money Market Fund** - NGM Cdn. Money Market Fund.



## PERFORMANCE COMPARISONS: SHORT-TERM

	<i>Year to October 31, 03</i>	<i>Six months to October 31, 03</i>	<i>Three months to October 31, 03</i>	<i>Month of October 03</i>
North Growth US Equity Fund \$CDN	19.37%	22.82%	6.57%	7.32%
North Growth US Equity Fund \$US	42.82%	33.51%	13.54%	9.87%
S&P 500 \$US	21.21%	15.62%	6.57%	5.66%
S&P 400 MidCap \$US	28.88%	25.73%	10.72%	7.56%
Russell 2000 \$US	39.40%	33.30%	11.28%	8.40%
NASDAQ Composite \$US	45.30%	32.28%	11.53%	8.22%

## PERFORMANCE COMPARISONS: LONG-TERM

	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>	<i>10 Years</i>
North Growth US Equity Fund \$CDN	25.86%	10.73%	17.80%	16.78%
North Growth US Equity Fund \$US	48.67%	16.16%	21.55%	16.80%
S&P 500 \$US	20.79%	-8.33%	0.53%	10.41%
S&P 400 MidCap \$US	30.71%	2.91%	11.66%	13.58%
Russell 2000 \$US*	43.38%	3.52%	8.43%	7.37%
NASDAQ Composite \$US*	46.05%	-16.58%	2.10%	9.49%

Source: Bloomberg "Total Return Analysis" as of November 3, 2003

\* The ten year average for these indices is a Simple Price Appreciation because total return data is not available on Bloomberg.

**RETURN SINCE INCEPTION (ANNUALIZED), OCT. 13, 1992 - OCT. 31, 2003**

**17.32% US**

**17.94% CDN**

**NAVPS: OCT. 31, 2003**

**\$ 22.30 CDN**

**\$ 16.91 US**

**TOTAL ASSETS IN FUND**

**\$ 184.29 MILLION CDN**

**CANADIAN MONEY MARKET FUND**  
**NET CURRENT YIELD AS OF OCT. 31, 2003**  
**2.46%**