

U.S. equities declined in May following strong gains during the first four months of the year. The S&P 500 Index fell 1.1%, slightly better than the S&P 400 MidCap and NASDAQ Composite indices which lost 1.4% and 1.2% respectively while lagging the S&P 600 SmallCap Index which was down 0.9%. The North Growth U.S. Equity Fund declined 1.5% for the month, underperforming all the major indices we follow. The weaker Canadian dollar in May resulted in a positive 0.8% return for the U.S. Equity Fund in Canadian dollars versus a 1.2% gain for the S&P 500 Index in Canadian dollars. The North Growth Canadian Equity Fund fell 1.8% during the month compared to a 0.9% decrease in the S&P/TSX Composite Index.

The lack of significant news over the past few weeks led the markets to focus on the ongoing sovereign debt problems in Europe and generally softer economic data. Concern of a slowdown in the rate of U.S. economic growth appears to be the main reason for the decline in equities. With so much emphasis on the negative news—namely, elevated initial unemployment claims, continued sluggish home sales, and lower than expected consumer spending—it is worthwhile to highlight the positive developments that suggest the current pause in the U.S. economic expansion is temporary.

Disruptions to the global supply chain caused by the tragic earthquake in Japan earlier this year are beginning to fade. Retail sales in Japan improved markedly in April, and small business confidence rebounded in May and June. Anecdotally, Tiffany stated that its Japanese business has begun to recover earlier than expected, Sony has restarted production at the last of ten factories in Japan, and Honda expects its North American production to return to 100% in August.

Along with the easing of factory disruptions as suppliers of parts from Japan recover, moderating energy prices and better weather (i.e. the absence of tornadoes and flooding on the lower Mississippi River) should lead to a pick-up in the U.S. economy in the second half of the year. In the latest Federal Reserve Beige Book survey of the economy based on information collected on or before May 27<sup>th</sup>, reports from the Fed's district banks indicated that "economic activity generally continued to expand since the last report," manufacturing "continued to expand in most parts of the country," and the labour market "improved gradually across most of the nation".

Most importantly, corporate revenues, earnings and cash flow continue to advance, and management commentary, for the most part, remains constructive. Analysts estimate that profits for the S&P 500 Index will grow 14.5% year-over-year in the current April-to-June quarter. These estimates have been steadily rising from 9.3% expected eight months ago.

The decline in U.S. stocks during the last month has therefore made valuations from a price/earnings (P/E) perspective more attractive. Compared with speculative-grade debt, or junk bonds, equity valuations are at the lowest level ever according to data compiled by Bloomberg. Earnings from the past 12 months for companies in the S&P 500 reached 6.64% of share prices in May versus the average yield of 6.61% on junk bonds. Based on Bloomberg data going back to 1987, it is the first time the earnings yield for U.S. equities has exceeded that of high-yield bonds. Furthermore, the S&P 500's dividend yield, another valuation gauge, compares favourably against U.S. Treasury rates.

By virtually all accounts, U.S. stocks are attractively valued. Earnings ultimately are the predominant driver of stock prices, and long-term investors are currently being offered a remarkable opportunity to buy some of the best global companies at discount prices.

Yours truly,

A handwritten signature in black ink that reads "Erica Lau". The signature is written in a cursive, flowing style.

Erica Lau, CFA

## NORTH GROWTH U.S. EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending May 31, 2011

	1 Month	3 Months	6 Months	YTD
<b>NGM US Equity Fund \$CDN</b>	<b>0.84</b>	<b>2.05</b>	<b>6.72</b>	<b>4.27</b>
S&P 500 \$CDN	1.19	1.54	8.53	5.00
<b>NGM US Equity Fund \$US</b>	<b>-1.47</b>	<b>2.35</b>	<b>13.11</b>	<b>7.07</b>
S&P 500 \$US	-1.13	1.84	15.03	7.82
S&P 400 MidCap \$US	-1.35	3.82	18.08	10.82
S&P 600 SmallCap \$US	-0.90	4.74	17.91	9.52
NASDAQ Composite \$US	-1.20	2.14	14.02	7.27

## NORTH GROWTH U.S. EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending May 31, 2011

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
<b>NGM US Equity Fund \$CDN</b>	<b>13.03</b>	<b>5.08</b>	<b>2.76</b>	<b>4.48</b>	<b>9.39</b>	<b>11.71</b>
S&P 500 \$CDN	15.97	0.08	0.69	-2.00	4.21	7.25
<b>NGM US Equity Fund \$US</b>	<b>22.76</b>	<b>5.95</b>	<b>5.43</b>	<b>9.43</b>	<b>11.94</b>	<b>13.22</b>
S&P 500 \$US	25.95	0.91	3.32	2.64	6.64	8.70
S&P 400 MidCap \$US	32.95	5.95	7.04	8.12	11.40	12.60
S&P 600 SmallCap \$US	29.69	6.01	5.00	8.38	9.19	11.39
NASDAQ Composite \$US	26.92	5.01	6.37	3.75	6.27	8.93

Source: Bloomberg "Total Return Analysis" as of June 1, 2011.

\*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: May 31, 2011 \$24.68 CDN  
\$25.48 US**

**Total Assets in Fund \$246.4 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending May 31, 2011

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>-1.82</b>	<b>0.45</b>	<b>18.69</b>	<b>10.58</b>
S&P / TSX \$CDN	-0.87	-1.76	7.85	3.61

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending May 31, 2011

	1 Year	3 Years	5 Years	10 Years	*Since Takeover	**Since Inception
<b>NGM Canadian Equity Fund</b>	<b>24.45</b>	<b>5.38</b>	<b>0.99</b>	<b>3.04</b>	<b>5.30</b>	<b>4.26</b>
S&P / TSX \$CDN	20.39	0.84	6.21	7.86	12.28	4.23

\*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, 2011 \$ 12.89 CDN**

**Total Assets in Fund \$ 23.0Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending May 31, 2011**

	*CURRENT YIELD	1 Year	3 Years	5 Years
<b>NGM CDN Money Market Fund</b>	<b>0.84</b>	<b>0.69</b>	<b>0.84</b>	<b>2.13</b>
30 Day T-Bill	N/A	0.75	0.83	2.08

*\* 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.*

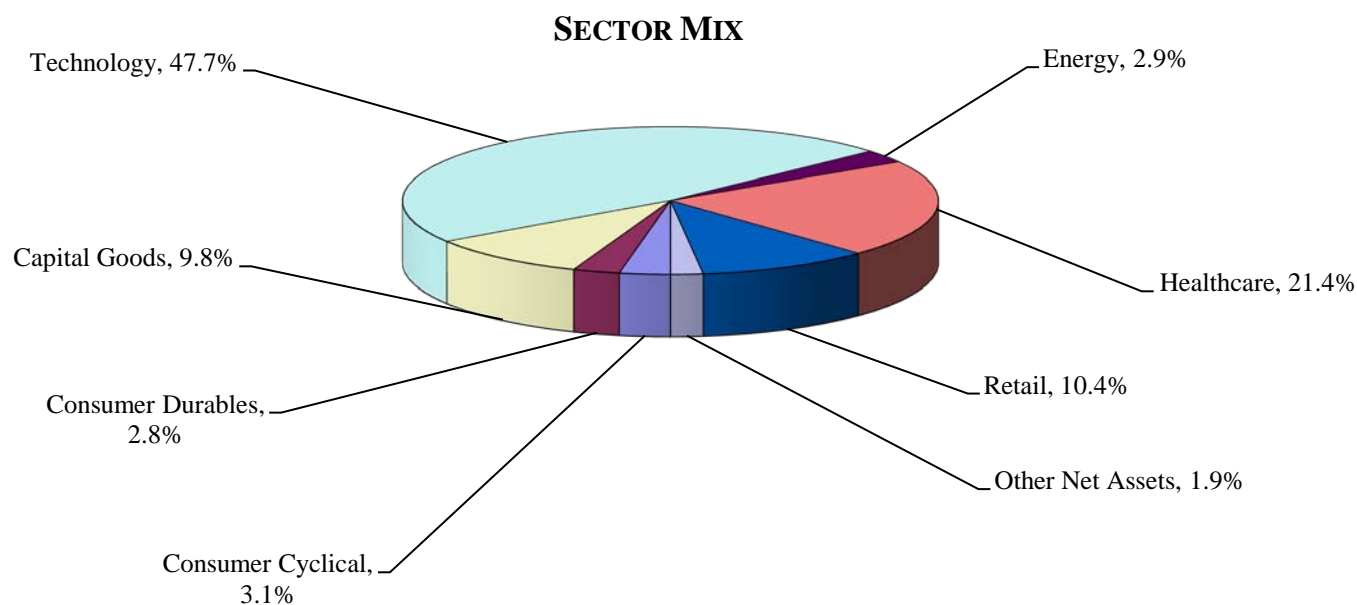
We take a very simple approach to managing the North Growth Canadian Money Market Fund. We invest in a portfolio of high quality short term bonds. The average maturity of the portfolio never is greater than 30 days. Historically the Fund has generated very competitive yields with this simple approach because the management fee is, and always has been, 0.25%. In today's low rate environment most other money market funds in Canada have cut their management fees and extended their maturities in order to improve yields, as a result the North Growth Canadian Money Market Fund's yields are now below the industry average.

We manage the portfolio to ensure high liquidity and have no intention to extend maturities in order to chase a few basis points and we do not have any room to reduce our management fees because we already take a loss on the product. We still believe our money market fund has superior liquidity characteristics due to its very low average maturity but our current yield is 0.84% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

**U.S. EQUITY FUND  
TOP 10 HOLDINGS  
As of May 31, 2011**

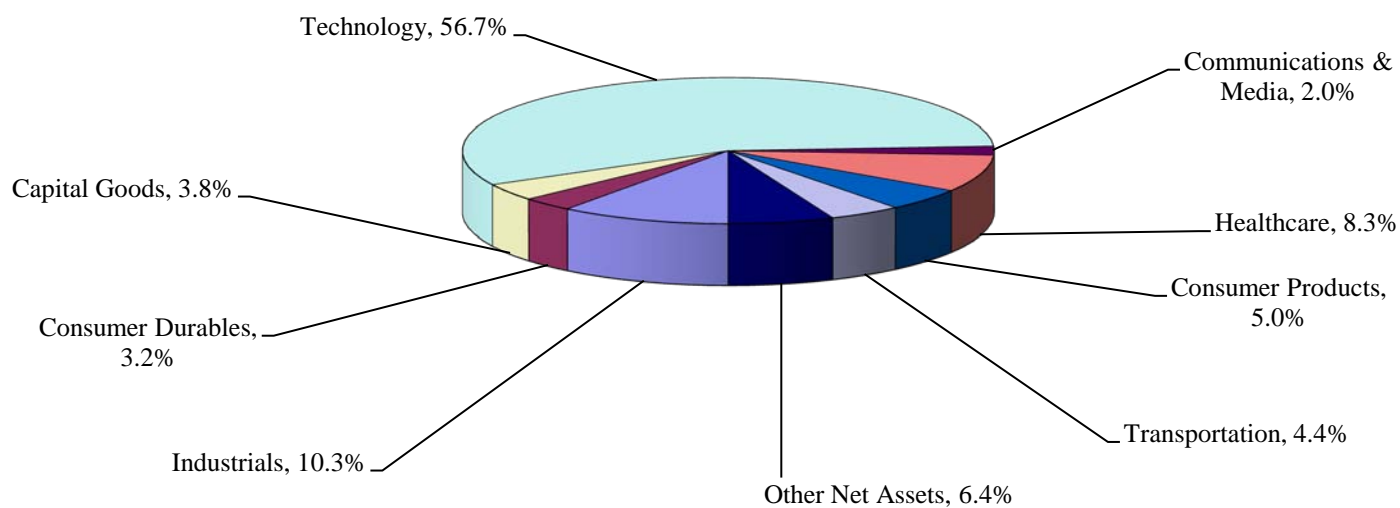
	<b>%</b>
Apple Inc.	9.48
Cisco Systems Inc.	7.74
Intel Corporation	5.51
Pier 1 Imports Inc.	4.70
Bristol-Myers Squibb Company	4.61
St. Jude Medical Inc.	4.54
Pfizer Inc.	4.48
Microsoft Corporation	4.44
Texas Instruments Inc.	4.17
Precision Castparts Corp.	<u>3.91</u>
<b>Top 10</b>	<b>53.58</b>
<b>Total Equities</b>	<b>98.47</b>
Cash	<u>1.53</u>
<b>TOTAL ASSETS</b>	<b>100.00%</b>



**CANADIAN EQUITY FUND**  
**TOP 10 HOLDINGS**  
**As of May 31, 2011**

	%
Zarlink Semiconductor Inc.	10.16
EXFO Inc.	7.53
Bombardier Inc., Class B	7.19
Sierra Wireless Inc.	6.11
Miranda Technologies Inc.	4.81
WestJet Airlines Ltd.	4.38
Celestica Inc.	4.11
Valeant Pharmaceuticals International, Inc.	3.87
GSI Group Inc.	3.85
ATS Automation Tooling Systems Inc.	<u>3.81</u>
<b>Top 10</b>	<b>55.82</b>
<b>Total Equities</b>	<b>93.59</b>
Cash	<u>6.41</u>
<b>TOTAL ASSETS</b>	<b>100.00%</b>

**SECTOR MIX**



**INVESTING WITH NORTH GROWTH MANAGEMENT:**

North Growth Management is a focused firm. We are Canada's U.S. Equity Specialist. 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).