

Concern that Europe's debt troubles will trigger another global recession resulted in the sell-off in global equity markets during September. The S&P 500 Index fell 7.0% for the month, slightly better than the larger declines in the S&P 400 MidCap and S&P 600 SmallCap Indices of 8.0% and 7.8% respectively. Of the major indices we follow, the NASDAQ Composite fared the best with its monthly depreciation of 6.3%. The North Growth U.S. Equity Fund posted decent relative performance in September, losing 5.7% and beating all the mentioned indices. Due to the significant weakening of the Canadian dollar, the U.S. Equity Fund gained 0.9% in Canadian dollars versus the S&P 500 Index which declined 0.5%. The North Growth Canadian Equity Fund also outperformed substantially last month, falling 3.7% against the S&P/TSX Composite Index which was down 8.2%.

The weak September returns for equities capped off the worst quarter since the bankruptcy of Lehman Brothers froze credit markets in 2008. The S&P 500 Index lost 13.9% in the third quarter, although from its high on April 29<sup>th</sup> this year to the recent closing low on October 3<sup>rd</sup>, the Index was down 19.4%, just barely avoiding the 20% drop that technically defines a "bear market". International equities have been hit harder. The MSCI All-Country World Index which tracks 45 emerging and developed countries fell 17.9% in the third quarter, with indices in 37 out of the 45 countries declining 20% or more.

While the equity markets appear to have priced in a double-dip recession, recent data suggest a U.S. economy that is still growing albeit at a slow pace. According to the Commerce Department, capital equipment orders increased 0.9% in August, the most in three months despite the strains in the global financial markets. Furthermore, the Institute for Supply Management's factory gauge accelerated in September and showed a gain in export demand. Auto purchases in the U.S. also picked up last month; September vehicle sales rose to an annual rate of 13 million, the fastest in five months. Although the Institute for Supply Management's non-manufacturing index for September fell slightly from August, the 53% reading nonetheless indicated a continued expansion in services; as well, the report showed an increase in orders.

Likely the most encouraging economic data of late pertains to U.S. employment. ADP Employer Services estimated that companies added 91,000 workers in September after an 89,000 gain in August. Similarly, the Labor Department reported that payrolls grew by 103,000 in September and the unemployment rate held steady at 9.1%. With revisions, payroll employment gains have averaged 96,000 over the past three months while household employment reached a new high since 2009. In addition, layoff announcements declined in each of the past three weeks.

Strong corporate profitability provides a tailwind for employment and capital spending, and on that front, we expect that third quarter earnings which will be reported over the coming weeks will again demonstrate solid growth and come in well ahead of analysts' reduced estimates. U.S. companies remain financially sound with exceptional balance sheets. A consequence of the growing cash flows of U.S. corporations has been an increase in dividend payouts and associated increase in the dividend yields of equities. In September, two holdings in the North Growth U.S. Equity Fund, Texas Instruments and Microsoft, announced raises to their quarterly dividends by 31% and 25% respectively. With the companies having regularly boosted their dividends over the past several years, the stocks now yield between 2 and 3%, and given their financial strength, we expect this positive trend to continue.

The S&P 500 Index currently trades at 10 times 2012 forecast earnings compared with the average of 14 during economic contractions since 1957, according to Bloomberg data. We do not believe that a recession in the U.S. is inevitable even though stock valuations are clearly discounting such a scenario. Accordingly, when the markets refocus on fundamentals and investor sentiment improves from the currently depressed levels, U.S. equities are poised to rally.

Yours truly,



Erica Lau, CFA

## NORTH GROWTH U.S. EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending September 30, 2011

	1 Month	3 Months	6 Months	YTD
<b>NGM US Equity Fund \$CDN</b>	<b>0.91</b>	<b>-6.27</b>	<b>-6.66</b>	<b>-4.87</b>
S&P 500 \$CDN	-0.50	-6.39	-6.79	-3.76
<b>NGM US Equity Fund \$US</b>	<b>-5.71</b>	<b>-13.75</b>	<b>-13.66</b>	<b>-9.74</b>
S&P 500 \$US	-7.03	-13.87	-13.78	-8.68
S&P 400 MidCap \$US	-7.96	-17.53	-18.14	-10.47
S&P 600 SmallCap \$US	-7.75	-17.56	-17.70	-11.35
NASDAQ Composite \$US	-6.31	-12.69	-12.73	-8.32

## NORTH GROWTH U.S. EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending September 30, 2011

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
<b>NGM US Equity Fund \$CDN</b>	<b>-0.06</b>	<b>5.99</b>	<b>-0.68</b>	<b>4.28</b>	<b>8.39</b>	<b>10.95</b>
S&P 500 \$CDN	3.03	0.72	-2.44	-1.31	3.41	6.63
<b>NGM US Equity Fund \$US</b>	<b>-1.89</b>	<b>6.53</b>	<b>0.60</b>	<b>8.64</b>	<b>10.30</b>	<b>11.96</b>
S&P 500 \$US	1.14	1.23	-1.18	2.82	5.23	7.59
S&P 400 MidCap \$US	1.62	5.06	2.79	7.81	9.73	11.11
S&P 600 SmallCap \$US	3.04	1.71	0.83	7.70	7.72	9.94
NASDAQ Composite \$US	2.99	5.99	2.30	5.67	5.25	7.85*

Source: Bloomberg "Total Return Analysis" as of October 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: Sep. 30, 2011 \$22.51 CDN**  
**\$21.48 US**

**Total Assets in Fund \$222.4 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending September 30, 2011

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>-3.67</b>	<b>-12.15</b>	<b>-14.73</b>	<b>-5.84</b>
S&P / TSX \$CDN	-8.21	-11.58	-16.13	-11.44

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending June 30, 2011

	1 Year	3 Years	5 Years	10 Years	*Since Takeover	**Since Inception
<b>NGM Canadian Equity Fund</b>	<b>1.94</b>	<b>11.78</b>	<b>-0.84</b>	<b>2.62</b>	<b>3.09</b>	<b>2.63</b>
S&P / TSX \$CDN	-3.07	2.83	2.71	8.01	9.70	2.64

\*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: Sep. 30, 2011 \$ 10.98 CDN**

**Total Assets in Fund \$ 19.5 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending September 30, 2011**

	*CURRENT YIELD	1 Year	3 Years	5 Years
<b>NGM CDN Money Market Fund</b>	<b>0.81</b>	<b>0.82</b>	<b>0.63</b>	<b>1.91</b>
30 Day T-Bill	N/A	0.91	0.68	1.86

*\* 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 0.81% 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**  
**As of September 30, 2011**

	%
Apple Inc.	11.37
Cisco Systems Inc.	8.49
Intel Corporation	6.21
Bristol-Myers Squibb Company	5.98
Microsoft Corporation	4.15
Pier 1 Imports Inc.	4.01
St Jude Medical Inc.	3.85
Cerner Corporation	3.76
Texas Instruments Inc.	3.74
Citrix Systems Inc.	3.33
Precision Castparts Corp.	3.13
Pfizer Inc.	3.11
WellPoint Inc.	3.00
Zimmer Holdings Inc.	2.74
Herman Miller Inc.	2.37
Applied Materials Inc.	2.26
Varian Medical Systems Inc.	2.18
Electronic Arts Inc.	2.16
Safeway Inc.	2.10
American Eagle Outfitters Inc.	2.06
First Solar Inc.	2.02
DSP Group Inc.	1.89
NIKE Inc., Class B	1.76
Micron Technology Inc.	1.63
General Electric Company	1.49
Johnson Controls Inc.	1.48
Cheesecake Factory Inc.	1.40
Adobe Systems Inc.	1.08
Wal-Mart Stores Inc.	1.04
Citigroup Inc.	1.03
GT Advanced Technologies Inc.	1.00
Jacobs Engineering Group Inc.	0.95
Ethan Allen Interiors	0.83
Savient Pharmaceuticals Inc.	0.73
Flow International Corporation	0.72
Guess? Inc.	0.40
<b>Total Equities</b>	<b>99.44</b>
<b>Cash</b>	<b><u>0.56</u></b>
<b>TOTAL ASSETS</b>	<b>100.00</b>

**CANADIAN EQUITY FUND**  
**As of September 30, 2011**

	%
EXFO Inc.	6.61
Celestica Inc.	5.57
Sandvine Corporation	5.23
Bombardier Inc., Class B	5.16
Miranda Technologies Inc.	5.03
Gennum Corporation	4.95
Sierra Wireless Inc.	4.43
Valeant Pharmaceuticals International, Inc.	4.40
WestJet Airlines Ltd.	4.30
QLT Inc.	4.21
ATS Automation Tooling Systems Inc.	4.01
Dorel Industries Inc.	3.71
Jean Coutu Group (PJC) Inc., Class A	3.54
MacDonald, Dettwiler and Associates Ltd.	3.54
GSI Group Inc.	3.17
CAE Inc.	2.91
Imris Inc.	2.33
Azure Dynamics Corporation	2.25
TELUS Corporation	2.23
Saputo Inc.	2.22
Ballard Power Systems Inc.	2.07
COM DEV International Inc.	1.94
Research in Motion Limited	1.20
Day4 Energy Inc.	0.86
<b>Total Equities</b>	<b>85.83</b>
<b>Cash</b>	<b><u>14.17</u></b>
<b>TOTAL ASSETS</b>	<b>100.00</b>

**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.  
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Vancouver, BC V7X 1M4

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**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).