

July was a mixed month for US equities. While the S&P 500 Index ended the month relatively flat, gaining 0.6%, the smaller capitalization S&P 400 and S&P 600 indices, as well as the NASDAQ Composite, each lost around 3%. The North Growth US Equity Fund declined 1.4% in July, lagging the S&P 500 but beating the other indices we track. The Fund benefited from its large cap bias, but its performance was hampered by its heavy weighting in technology stocks. During July, the Canadian dollar weakened against the US dollar, bringing the US Equity Fund's monthly return expressed in Canadian dollars to be flat versus a 2.0% Canadian dollar gain for the S&P 500. Year-to-date, the North Growth US Equity Fund is down 4.4% in Canadian dollars, underperforming the S&P 500's Canadian dollar return of 0.6%.

In Canada, following two months of losses, the S&P/TSX Composite Index posted a solid July rally largely led by materials, returning 2.0% for the month while the North Growth Canadian Equity Fund fell 2.2%. Year-to-date, the S&P/TSX Index is up 6.3% and the Fund is underperforming at -1.0%. While we encourage investors to focus on long term results, the Fund is down an abysmal 15.9% over the last three months versus the S&P/TSX Index which is down only 2.4%. In April, we were encouraged that we saw signs of the Fund building momentum, although as usual we voiced caution about focusing too much on the relative short term performance. Despite the recent setbacks in performance we continue to believe in the Canadian Equity Fund's core holdings and we maintain our conviction that the Fund is well positioned to outperform over the longer term against what we see as an overvalued Canadian market that is overdue for a downturn.

The economic developments taking place in the US continue to progress as anticipated, and it appears that a mid-cycle slowdown is underway. The Commerce Department reported that the US economy grew at an annual rate of 2.5% in the second quarter, less than half the 5.6% GDP growth in the first three months of the year. Furthermore, US employers added fewer jobs than expected in July, and the unemployment rate rose to 4.8% from 4.6% in June. Consumer spending, home construction, and business purchases of equipment and software, are all exhibiting signs of deceleration.

As economic growth moderates to more sustainable levels in the US, the likelihood that the Federal Reserve will continue to raise interest rates diminishes. As expected, on August 8th, the Federal Open Market Committee decided to keep the target for the Federal Funds rate unchanged at 5.25% after raising it 17 times since June 2004. In the past few months, speculation over the Fed's interest rate action at each policy meeting has contributed to the near term volatility in the markets. We continue to believe that the Federal Reserve is at or very near the end of its current rate cycle, and that such a time bodes well for equity investments going forward.

More importantly, corporate earnings growth remains healthy, and in conjunction with the negative market sentiment in the US, stock valuations are becoming more attractive. In July, the vast majority of the earnings reports for the second quarter came in well above analysts' expectations. Of the approximate 80% of the S&P 500 companies that have reported, over 70% posted results that surprised on the upside. The year-over-year earnings growth rate for the market is on track to be 14.8% for the quarter just ended, making it the 12th consecutive quarter of double-digit profit growth.

As we have highlighted in our previous monthly reports, we have been concentrating both our equity portfolios, and particularly in the US, gradually shifting the positioning of the North Growth US Equity Fund from a mid and small capitalization focus to large cap growth stocks. Today, almost 70% of the US Equity Fund is invested in large cap equities compared to only 5% in December 2000. Moreover, in contrast to the portfolio at that time, the Fund is currently fully invested with the top ten holdings accounting for over 50% of the total portfolio. In December 2000, the Fund held over 30% in cash and the top ten positions constituted only 35% of the portfolio.

The difference in our positioning today versus six years ago reflects the dramatically altered market environment and sentiment. Back in 2000, we deemed the equity markets to be excessively optimistic with the largest capitalization stocks trading at record high valuations both on an absolute basis and relative to the mid and small caps. Technology stocks were by far the market darlings and although the "bubble" that had developed around the sector was beginning to deflate, valuations remained unreasonably high. As we positioned the North Growth US Equity Fund to limit downside risk then, we avoided the overvalued technology names and identified the best investment opportunities in small and mid capitalization stocks.

Today, we find ourselves in the opposite situation. After six years in which the S&P 500 has stayed relatively flat and the NASDAQ Composite fallen severely from its highs, investor sentiment is pessimistic while valuations are very attractive, especially in large cap growth stocks which include many of the technology bellwethers. The US Equity Fund is now positioned for significant upside potential in this more favourable risk/return environment.

We remain diligent in adhering to our "growth at a reasonable price" investment philosophy and managing the portfolios on a stock-by-stock basis. This has led to quite a change in the composition of the North Growth US Equity Fund over the past six years. As we bear with the short term volatility that has resulted from our increased concentration and increased exposure to large capitalization growth stocks, we are encouraged by the overwhelmingly compelling valuations and excellent fundamentals of the companies in the portfolio, and believe that our positioning will deliver solid long term performance.

Yours truly,



Erica Lau, CFA

**NORTH GROWTH US EQUITY FUND
SHORT TERM RATES OF RETURN FOR PERIODS ENDING JULY 31, 2006**

	1 Month	3 Months	6 Months	YTD
NGM US Equity Fund \$CDN	0.01%	-7.64%	-5.98%	-4.35%
S&P 500 \$CDN	2.00%	-0.96%	0.02%	0.55%
NGM US Equity Fund \$US	-1.35%	-8.75%	-5.37%	-1.70%
S&P 500 \$US	0.62%	-2.15%	0.67%	3.34%
S&P 400 MidCap \$US	-2.85%	-7.21%	-4.37%	1.27%
S&P 600 SmallCap \$US	-3.44%	-7.83%	-4.04%	4.00%
NASDAQ Composite \$US	-3.69%	-9.80%	-8.99%	-4.73%

**NORTH GROWTH US EQUITY FUND
ANNUALIZED RATES OF RETURN FOR PERIODS ENDING JULY 31, 2006**

	1 Year	3 Years	5 Years	10 Years	Since Inception
NGM US Equity Fund \$CDN	-8.50%	5.69%	6.31%	13.61%	14.97%
S&P 500 \$CDN	-2.58%	3.09%	-3.23%	6.78%	9.91%
NGM US Equity Fund \$US	-1.02%	13.59%	12.96%	15.84%	15.76%
S&P 500 \$US	5.38%	10.80%	2.82%	8.88%	10.66%
S&P 400 MidCap \$US	4.28%	15.65%	9.00%	14.29%	14.28%
S&P 600 SmallCap \$US	3.76%	17.07%	10.67%	12.21%	N/A
NASDAQ Composite \$US*	-3.48%	7.11%	1.19%	7.29%	9.79%

Source: Bloomberg "Total Return Analysis" as of August 1, 2006.

*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: July 31, 2006 \$ 21.85 CDN
\$ 19.31 US**

Total Assets in Fund \$ 250.4 Million CDN

**NORTH GROWTH CANADIAN EQUITY FUND
SHORT TERM RATES OF RETURN FOR PERIODS ENDING JULY 31, 2006**

	1 Month	3 Months	6 Months	YTD
NGM Canadian Equity Fund	-2.16%	-15.85%	-4.97%	-0.97%
S&P / TSX \$CDN	2.03%	-2.41%	0.23%	6.31%

**NORTH GROWTH CANADIAN EQUITY FUND
ANNUALIZED RATES OF RETURN FOR PERIODS ENDING JULY 31, 2006**

	1 Year	3 Years	5 Years	*Since Takeover	**Since Inception
NGM Canadian Equity Fund	2.62%	7.11%	4.13%	9.80%	5.82%
S&P / TSX \$CDN	15.92%	19.92%	11.05%	22.02%	2.68%

*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: July 31, 2006 \$ 12.07 CDN

Total Assets in Fund \$ 24.5 Million CDN

**NORTH GROWTH CANADIAN MONEY MARKET FUND
ANNUALIZED RATES OF RETURNS FOR PERIODS ENDING JULY 31, 2006**

	* CURRENT YIELD	1 Year	3 Years	5 Years
NGM CDN Money Market Fund	4.08%	3.21%	2.55%	2.57%
30 Day T-Bill	4.02%	3.36%	2.73%	2.74%

** 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, as evidenced in the 94 basis point increase in the Fund’s current yield over the past six months versus a 100 basis point increase in the overnight rate over the same period.

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 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.