

Equity markets around the globe continued their ascent in August. Monthly gains for the US indices we track range from 1.7% for the NASDAQ Composite to 4.4% for the S&P 400 MidCap. The North Growth US Equity Fund appreciated 1.8% for the month, half of the 3.6% return of the S&P 500. Since the March 9<sup>th</sup> lows, the Fund is up 61.5% against the S&P 500 which has climbed 52.7%.

Despite the strong rally in equities over the past six months, the S&P 500 Index is still around 18% below the level it was at a year ago just prior to the failure of Lehman Brothers. The collapse of Lehman precipitated a seizure in the credit markets, and the lack of credit available to businesses and consumers in the fall of 2008 threatened to bring the global economy into a depression. Fear and panic ensued, resulting in the plunge of global equity markets as stocks discounted various financial doomsday or Armageddon scenarios.

With the aid of massive liquidity injections by the Fed and other central banks and substantial stimulative measures enacted by governments around the world, the dire predictions have not materialized. In our opinion, the gain in the S&P 500 since March reflects only the elimination of the extreme investor anxiety that arose from the height of the credit crisis, but does not appear yet to factor in the economic recovery that is underway.

Subsequent to reporting generally better-than-expected second quarter earnings, numerous companies have provided business updates which indicate that demand is strengthening and consequently profits will again surprise on the upside in the current quarter. The list of technology companies that have recently given such positive outlooks includes Intel, Altera, Microsoft, Juniper Networks, and National Semiconductor, and confirms that capital spending is indeed increasing as demand picks up.

Additionally, last week, Texas Instruments raised its revenue and earnings guidance for the third quarter, citing better sales across the board and higher operating margins. The company expects to report about \$0.40 earnings per share (EPS) for the quarter versus \$0.20 in the previous quarter. Notably, analysts' expectations for EPS for the current quarter in April were only around \$0.11—in other words, earnings will be almost four times as much as was expected only five months ago! In this context, the approximate 45% appreciation in the stock price over the period is by no means unreasonable or “overly optimistic”.

The concern that seems to permeate current market commentary following the run-up in equities since March is that US stocks, as represented by the S&P 500 Index, are no longer attractively valued. We disagree. As the Texas Instruments example illustrates, investors appear to be underestimating the earnings potential of many multinationals as the global economy recovers. Market participants who deem stocks to be expensive based on the trailing price/earnings multiple of the S&P 500 are judging companies based on extremely depressed earnings that occurred during severe dislocation in the financial markets.

In a similar vein, there is chatter that even though earnings during the last two quarters have been better-than-expected, the profits are “low quality” as they were generated due mainly to cost reductions as opposed to top-line or sales growth. Clearly, most corporations did not experience much growth in revenues during the past year as a consequence of the global economic contraction. However, many management teams in the US responded swiftly to the rapid downturn, boosting productivity and managing expenses prudently. As a result, these companies are positioned well for a macroeconomic rebound—any improvement in sales, along with improved operating structures and better margins from cost containment, should lead to powerful earnings acceleration greater than that anticipated by the Street.

By and large, the holdings in the North Growth US Equity Fund exhibit the earnings potential as described and fit our "growth at a reasonable price" philosophy. We remain constructive on the global economic recovery and continue to be encouraged by the compelling investment opportunities available in the US equity markets.

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 US EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending August 31, 2009

	1 Month	3 Months	6 Months	YTD
<b>NGM US Equity Fund \$CDN</b>	<b>3.42</b>	<b>13.27</b>	<b>31.52</b>	<b>17.85</b>
S&P 500 \$CDN	5.29	12.01	20.94	3.36
<b>NGM US Equity Fund \$US</b>	<b>1.76</b>	<b>12.93</b>	<b>52.81</b>	<b>31.09</b>
S&P 500 \$US	3.61	11.67	40.52	14.97
S&P 400 MidCap \$US	4.37	14.19	46.96	23.10
S&P 600 SmallCap \$US	2.29	14.47	47.84	13.61
NASDAQ Composite \$US	1.67	13.47	46.49	28.29

## NORTH GROWTH US EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending August 31, 2009

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
<b>NGM US Equity Fund \$CDN</b>	<b>-8.18</b>	<b>-3.91</b>	<b>0.29</b>	<b>7.07</b>	<b>10.59</b>	<b>11.43</b>
S&P 500 \$CDN	-15.71	-6.08	-3.09	-3.82	5.61	6.83
<b>NGM US Equity Fund \$US</b>	<b>-10.94</b>	<b>-3.61</b>	<b>4.00</b>	<b>10.43</b>	<b>12.23</b>	<b>12.27</b>
S&P 500 \$US	-18.25	-5.78	0.49	-0.79	7.18	7.64
S&P 400 MidCap \$US	-18.17	-2.99	3.98	6.55	10.51	11.00
S&P 600 SmallCap \$US	-20.73	-5.29	2.86	6.58	8.86	9.84
NASDAQ Composite \$US	-14.23	-1.88	2.64	-2.47	6.64*	7.67*

Source: Bloomberg "Total Return Analysis" as of September 1, 2009.

\*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: Aug. 31, 2009 \$19.76 CDN**  
**\$18.05 US**

**Total Assets in Fund \$196.7 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending August 31, 2009

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>5.49</b>	<b>8.53</b>	<b>43.62</b>	<b>29.17</b>
S&P / TSX \$CDN	0.95	5.57	36.04	23.68

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending August 31, 2009

	1 Year	3 Years	5 Years	*Since Takeover	**Since Inception
<b>NGM Canadian Equity Fund</b>	<b>-24.06</b>	<b>-11.66</b>	<b>-4.96</b>	<b>-1.45</b>	<b>-0.68</b>
S&P / TSX \$CDN	-18.22	-0.62	8.04	10.82	1.79

\*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: Aug. 31, 2009 \$ 7.75 CDN**

**Total Assets in Fund \$ 14.2 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending August 31, 2009**

	*CURRENT YIELD	1 Year	3 Years	5 Years
<b>NGM CDN Money Market Fund</b>	<b>0.05</b>	<b>1.09</b>	<b>2.97</b>	<b>2.90</b>
30 Day T-Bill	N/A	1.04	2.84	2.88

*\* 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.*

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).