NORTH
GROWTH MANAGEMENT LTD.

2014 ANNUAL REPORT

Dear Unit holders,

As a Unit holder myself, I am very happy with the absolute Canadian dollar returns for 2014 at 21.7% for U.S. Equity Fund and 19.4% for the Canadian Equity Fund.

Even after taking into account statistics indicating 2014 was one of the most challenging years on record for active managers, as Lead Manager of both funds my evaluation of 2014 is somewhat muted. I am happy that the Canadian Fund delivered another year of significant outperformance versus the S&P/TSX Composite Index. For the U.S Fund, I am disappointed that, despite the majority of the Fund's holdings delivering solid relative performance and major investment themes playing out very much in line with our portfolio positioning, the Fund underperformed the S&P 500 as the result of my decisions with regards to an individual security.

The body of this report provides a more detailed review of the 2014 performance of each Fund and a discussion of our views on the economic and market environment that are important inputs to our selection of individual securities.

The big picture themes we see for the U.S. are continued improvement in the outlook for economic growth and equity valuations that are reasonable in relation to growth prospects.

The U.S. Fund's positioning continues to reflect our views that large capitalization stocks are more attractively valued than small and mid capitalization stocks. The outperformance of large capitalization stocks during 2014 has started to reduce this relative valuation differential. In line with historical patterns we believe the outperformance of large capitalization stocks has only just begun and could persist for a number of years. We would expect over the next few years, as we gradually find more attractive relative opportunities in smaller capitalization names, the U.S. dollar-denominated investments exposure to this group will increase.

The recent decline in oil prices is getting a lot of attention lately. We believe high oil prices have constrained global growth over the past decade. While we are not making any calls on where oil prices will settle out, our long-term view on commodity cycles leads us to conclude that it will be significantly lower than the $100 level to which the market had become accustomed. If we are correct, and lower oil prices persist, returns from oil sector investments are likely to be disappointing. However, we believe lower oil prices should provide a significant boost for broader global growth.

The Canadian economy is quite exposed to oil and commodity investment. In the near term, lower commodity prices are likely to constrain Canadian economic growth. However, some sectors of the Canadian economy will benefit and we believe that the Canadian Fund is well positioned for this scenario.

The decline in the Canadian dollar relative to the U.S. dollar is another hot topic in Canada right now. Short-term moves in exchange rates are difficult or even impossible to predict. Our longer term views have remained quite consistent since we first discussed them in the 2001 annual report. We believe somewhere around 80 to 85 cents U.S. is fair value for the Canadian dollar. With the Canadian dollar now in this range, we feel Canadian investors should not give much consideration to the direct impact from currency on long-term returns for U.S. dollar-denominated investments. From these levels we would view any short-term volatility in the exchange rates as noise that probably should just be tuned out.

Over the past few years we have observed a disconcerting trend towards very short-term thinking, which only seemed to intensify in 2014. One sign of this trend is the seemingly interchangeable use of the terms 'trading' and 'investing' by the financial media. Maybe there are some professionals who are capable of generating good long-term results using short-term trading strategies, but they are few and far between. In our opinion, a primary contributor to short-term thinking is the acceptance of short-term volatility as a useful measure of market risk.

More recently, the constant introduction and marketing of new Exchange Traded Funds (ETFs) designed to emulate individual sectors seems to be taking the short-term trading mentality into the mainstream. In its purest form, there is nothing inherently wrong with the idea of using a low cost fund that emulates a broad market index as a long-term investment strategy. However, these sector-focused ETFs have nothing to do with true indexing. These non-diversified ETFs simply promote short-term trading by encouraging investors to make sector bets on the latest trend. The popularity of these ETF products is great business for their issuers and provides great fodder for the call-in shows. For the vast majority of the investing public, the short-term trading strategies the ETF industry promotes will almost certainly have disastrous consequences for their long-term returns.

As a team, Cynthia, Erica, Jamie and I continue to use our "growth at a reasonable price" philosophy to evaluate the individual holdings of our current portfolios and to identify potential new holdings. We determine the portfolio weightings based on our assessment of the relative upside potential versus downside risk associated with each holding. While we are concerned for individuals being preyed on by the ETF machine, we believe that short-term thinking can provide exploitable opportunities for our long-term approach to investing. As we move into 2015, we remain steadfastly committed to the course our discipline provides.

Sincerely,

Rory North
Lead Portfolio Manager and CEO

Average Annual Compound Rates of Return

It is virtually impossible to correctly judge a long-term average rate of performance from looking at a series of annual results. One needs to have some sense of average annual compound rates of return in order to make financial planning decisions and to compare alternative investments.

NORTH GROWTH (NGM) EQUITY FUNDS AND MARKET INDICES

Annualized Rates of Return (%) for periods ending December 31, 2014

U.S. Equities	1 yr	3 yrs	5 yrs	10 yrs	15 yrs	20 yrs	Since Inception*
NGM U.S. Equity Fund $CDN	21.7%	23.2%	16.2%	7.9%	10.4%	12.5%	12.7%
S&P 500 $CDN	24.0%	25.8%	17.8%	7.3%	2.7%	8.8%	9.4%
NGM U.S. Equity Fund $U.S.	11.6%	17.9%	14.0%	8.2%	12.0%	13.5%	13.1%
S&P 500 $U.S.	13.7%	20.4%	15.5%	7.7%	4.2%	9.9%	9.7%
S&P 400 Mid Cap $U.S.	9.8%	20.0%	16.5%	9.7%	9.7%	12.9%	12.6%
S&P 600 Small Cap $U.S.	5.8%	20.2%	17.3%	9.0%	9.9%	11.6%	11.8%
NASDAQ Composite $U.S.°	14.8%	23.7%	17.3%	9.3%	2.0%	9.6%	9.9%

Canadian Equities	1 yr	2 yrs	5 yrs	10 yrs	15 yrs	20 yrs	Since Inception**
NGM CDN Equity Fund $CDN	19.4%	31.2%	N/A	N/A	N/A	N/A	27.8%
S&P/TSX $CDN	10.6%	11.8%	7.5%	7.6%	6.3%	8.8%	13.2%

Source: Bloomberg

* *NGM U.S. Equity Fund Inception October 13, 1992*

** *NGM Canadian Equity Fund Prospectus Inception June 15, 2012*

° *Return Since Inception and for the 20 year period for the NASDAQ are simple price appreciation only because Total Return data is not available on Bloomberg*

Annual Performance Results

This data gives you insight into the typical annual variations in investment results. Annual results explain how long-term results come about and will reveal whether a record is dependent largely on earlier results, more recent results, or more ideally a balance of both. This data also shows that our outstanding long-term results were not achieved by having stellar results in every single year. In equity investing, it should be noted that performance results will periodically fall below expected or desired levels and this is why we emphasize the use of longer term results in the evaluation of performance. Furthermore, a year or more of exceptionally strong performance should not give rise to unreasonably high long-term expectations. A superior long-term record does not mean every year was (or will be) exceptional but it does mean that despite some years of low returns we have delivered on our mandate to provide superior long-term results.

NORTH GROWTH (NGM) EQUITY FUNDS AND MARKET INDICES

Annual Rates of Return (%) for Calendar Years

U.S. Equities	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NGM U.S. Equity Fund $CDN	21.7%	44.2%	6.6%	1.7%	11.6%	28.2%	-26.7%	-10.9%	12.7%	6.5%
S&P 500 $CDN	24.0%	41.5%	13.5%	4.4%	8.9%	9.1%	-22.6%	-10.3%	16.0%	1.5%
NGM U.S. Equity Fund $U.S.	11.6%	34.9%	8.9%	-0.5%	17.9%	48.5%	-40.4%	4.7%	12.5%	10.0%
S&P 500 $U.S.	13.7%	32.4%	16.0%	2.1%	15.1%	26.5%	-37.0%	5.5%	15.8%	4.9%
S&P 400 Mid Cap $U.S.	9.8%	33.5%	17.9%	-1.7%	26.6%	37.4%	-36.2%	8.0%	10.3%	12.6%
S&P 600 Small Cap $U.S.	5.8%	41.3%	16.3%	1.0%	26.3%	25.6%	-31.1%	-0.3%	15.1%	7.7%
NASDAQ Composite $U.S.	14.8%	40.2%	17.7%	-0.8%	18.2%	45.4%	-40.0%	10.7%	10.4%	2.1%

Canadian Equities	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NGM CDN Equity Fund $CDN	19.4%	44.3%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&P/TSX $CDN	10.6%	13.0%	7.2%	-8.7%	17.6%	35.1%	-33.0%	9.8%	17.3%	24.1%

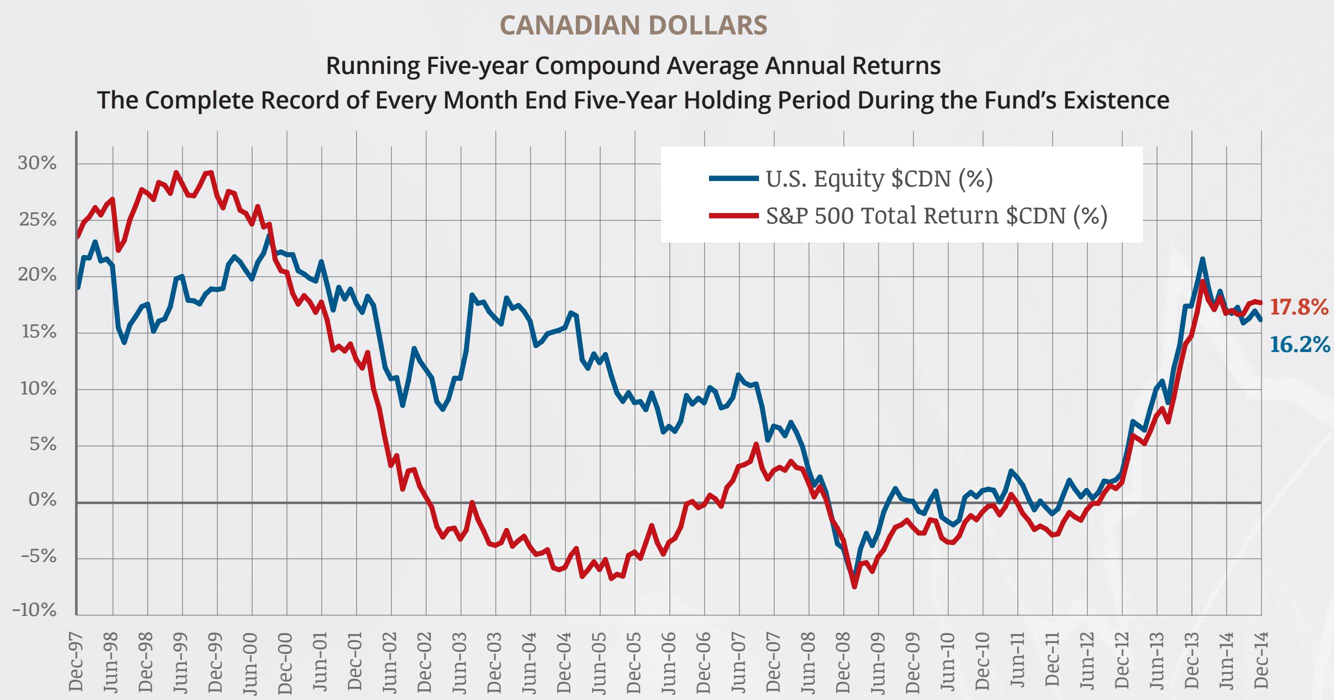
Source: Bloomberg "Total Return Analysis"

Unit Price (US Fund): December 31, 2014 *$41.04 CDN*
$35.38 US

Unit Price (Canadian Fund): December 31, 2014 *$20.15 CDN*

North Growth U.S. Equity Fund Running Five-Year Results: Expressed in Canadian Dollars

As Canadian investors, it is important to understand the impact foreign exchange volatility can have on Canadian dollar denominated returns from our foreign investments. Comparing the running five-year compound average annual returns for the North Growth U.S. Equity Fund in both Canadian and U.S. dollars should help investors better understand the currency impact. As of December 31, 2014, the Fund's five-year average annual return in Canadian dollars was 16.2% versus 14.0% in U.S. dollars



This chart shows the annualized compound returns for the preceding five years from any point in time over the life of the Fund. For example, for the five-year period ending December 31, 2014, the average annual compound return for the U.S. Equity Fund in Canadian dollars is +16.2%. While we are pleased with the recent five-year returns, it is important to note that the beginning of this period follows the worst of the recession and ensuing panic. We are optimistic about the future, but caution investors to not place too much emphasis on this most recent five-year period when setting expectations for the future.

North Growth U.S. Equity Fund Running Five-Year Results: Expressed in U.S. Dollars

The Best Long-Term Perspective of a Fund's Performance

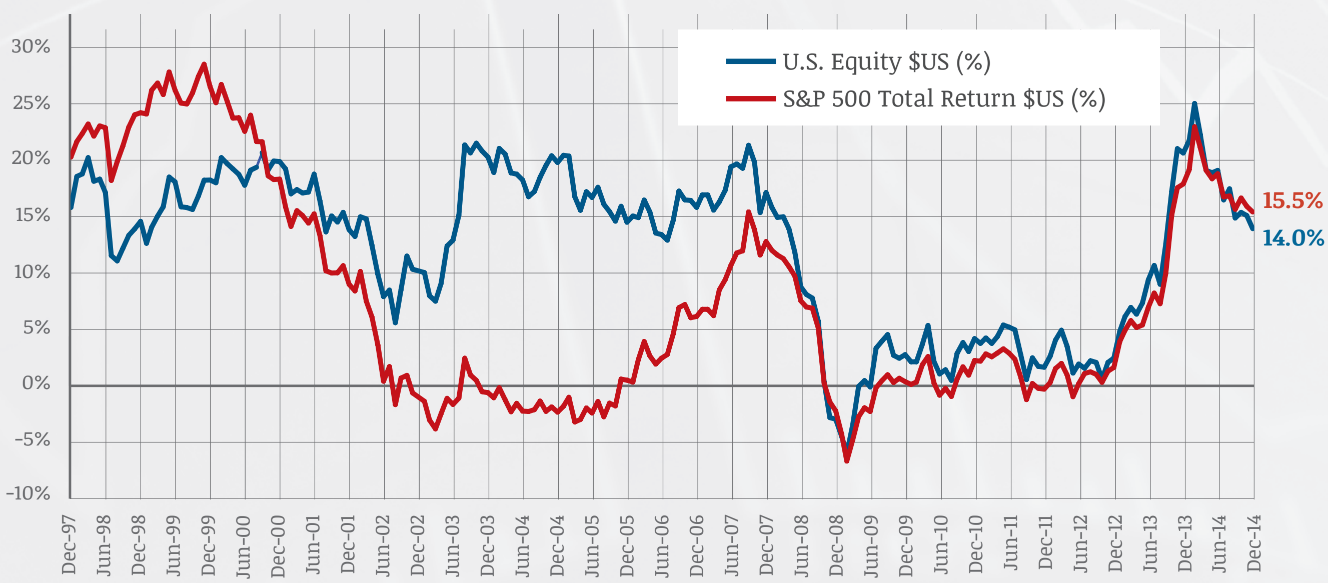
We feel this is a measure that gives a particularly good long-term perspective of a Fund's performance. Five years may be a longer period than many investors focus on, but it is the minimum meaningful period for evaluating performance. It presents longer term results in a way which are neither overly influenced by long past periods of good performance, nor by strong short-term results (end date sensitivity).

The running five-year average return chart shown below effectively achieves this desired balance as it provides a complete record of the range of performance over all five-year holding periods. Moreover, looking at the complete series of consecutive five-year periods also gives a good insight into the range of five-year performance that has been typical over the long-term.

U.S. DOLLARS

Running Five-year Compound Average Annual Returns

The Complete Record of Every Month End Five-Year Holding Period During the Fund's Existence



This chart shows the annualized compound returns for the preceding five years from any point in time over the life of the Fund. For example, for the five-year period ending December 31, 2014 the average annual compound return for the U.S. Equity Fund in U.S. dollars is +14.0%. While we are pleased with the recent five-year returns, it is important to note that the beginning of this period follows the worst of the recession and ensuing panic. We are optimistic about the future, but caution investors to not place too much emphasis on this most recent five-year period when setting expectations for the future.

NGM U.S. Equity Fund

For the third consecutive year, the S&P 500 posted double-digit returns and ended 2014 with a total return of 13.7% in U.S. dollar terms. Apart from a minor pullback in early October, U.S. stocks marched consistently higher throughout the year; in fact, the S&P 500 posted 53 new closing highs despite a continuous stream of geopolitical and economic concerns. The NASDAQ Composite also posted a strong gain of 14.8% in 2014. The smaller-capitalization indices, such as the S&P 400 MidCap and the S&P 600 SmallCap Indices, didn't fare as well as the aforementioned indices but managed to post gains of 9.8% and 5.8%, respectively. We believe that we are in the early stages of a multi-year cycle of relative strength for large capitalization U.S. stocks and that the North Growth U.S. Equity Fund is well positioned to benefit from this trend with almost 75% of our holdings invested in large-capitalization stocks.

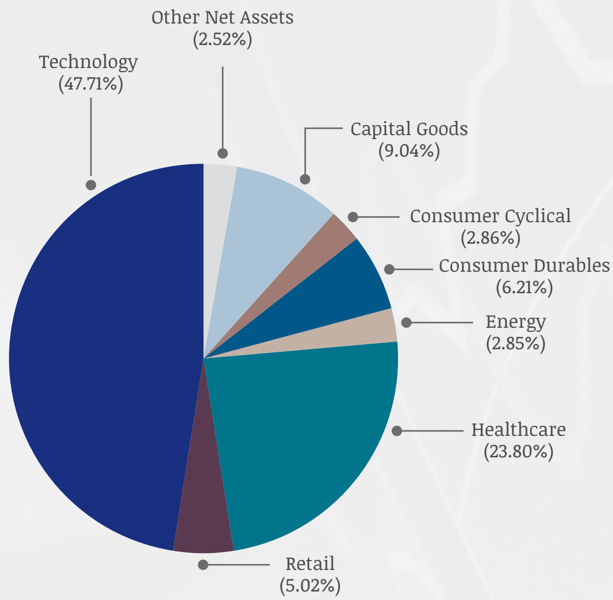
In 2014, the U.S. Equity Fund gained 11.6% in U.S. dollar terms, underperforming the S&P 500 Index by 2.1% and the NASDAQ Composite by 3.3% while outperforming the S&P 400 MidCap Index by 1.8% and the S&P 600 SmallCap Index by 5.8%. Due to a significantly weaker Canadian dollar, the Fund gained 21.7% in Canadian dollars versus the S&P 500 Index which was up 24.0%. The sectors that outperformed the broader S&P 500 Index included utilities, healthcare, technology, financials and consumer staples. The Fund benefitted from having a large exposure to the technology and healthcare sectors, with holdings such as Apple, Cisco, Microsoft, Intel, Electronic Arts, Amgen and Anthem contributing positively to the Fund's performance. As previously noted in our September monthly report published on October 15, 2014, GT Advanced Technologies filed for bankruptcy and detracted from the performance of the Fund.

Performance

	2014	* Since Inception
NGM U.S. Equity Fund $CDN	21.7%	12.7%
S&P 500 $CDN	24.0%	9.4%

* *since October 13, 1992*

Sector Mix



U.S. EQUITY FUND

As of December 31, 2014

	%
Cisco Systems Inc.	9.80
Apple Inc.	8.81
Intel Corporation	5.51
Microsoft Corporation	4.36
St. Jude Medical Inc.	4.27
Anthem Inc.	4.24
Citrix Systems Inc.	3.75
Zimmer Holdings Inc.	3.46
Gilead Sciences Inc.	3.27
Electronic Arts Inc.	3.05
Cerner Corporation	3.02
Texas Instruments Inc.	3.01
Ethan Allen Interiors Inc.	2.86
First Solar Inc.	2.85
Amgen Inc.	2.69
Rite Aid Corporation	2.69
Pfizer Inc.	2.66
Qualcomm Inc.	2.65
General Electric Company	2.59
Precision Castparts Corp.	2.56
Pier 1 Imports Inc.	2.33
Herman Miller Inc.	2.33
Varian Medical Systems Inc.	2.15
DSP Group Inc.	1.95
Applied Materials Inc.	1.79
Gap Inc.	1.46
American Eagle Outfitters Inc.	1.39
Jacobs Engineering Group Inc.	1.37
Itron Inc.	1.31
Johnson Controls Inc.	1.21
Mohawk Industries Inc.	1.03
Bristol-Myers Squibb Company	0.91
Endocyte Inc.	0.16
Total Equities	**97.49**
Cash	**2.51**
TOTAL ASSETS	**100.00**

NGM Canadian Equity Fund

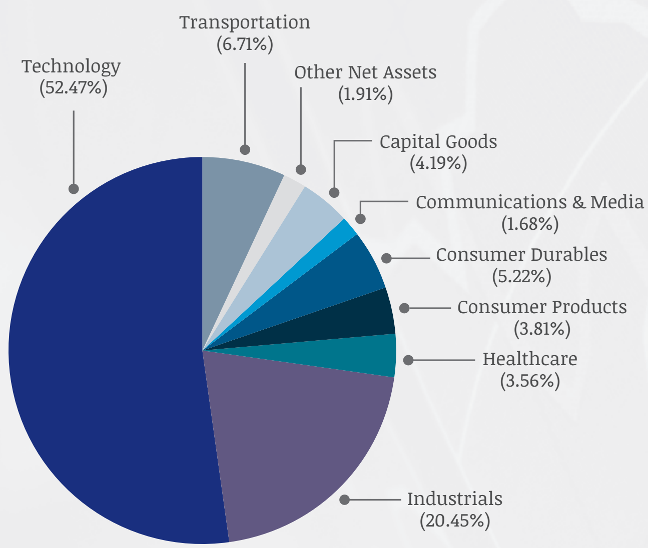
The Canadian Equity Fund finished the year strongly with a gain of 19.4% compared to 10.6% for the S&P/TSX Composite Index. The Fund started the year off strongly, peaking in early March and subsequently struggled through the summer while the Index caught up. Constant talk and fears of a correction resulted in a broad pullback from September to mid-October. The sell-off began with declines in highflyers (popular, speculative, and very expensive stocks) and small-caps but it accelerated as oil prices started to fall precipitously into October – resulting in a fairly short but broad decline in stocks. Despite owning attractively-valued small-caps, while avoiding high-flyers and energy stocks, the Fund did not escape the selloff as some investors took a broad "sell Canada" approach. From the October bottom to the end of the year, the Fund recovered very strongly and finished the year at its March high. The strong outperformance from the October bottom, in our opinion, highlights the differentiation of the Fund which remains comprised of attractively-valued stocks with good growth drivers. The fever for resource stocks continues to be high and while much has been opined about their fall from the summer highs, for the entire year they are not down nearly as much as their underlying commodities - making us concerned of further risk. We do not encourage selling good Canadian or U.S. equities to go "bottom feeding" in resource stocks as we feel investors might be underestimating the potential depth and duration of the contraction in commodity prices and related stocks. The weakness in oil is the consequence of a supply glut rather than deteriorating economies; ironically low oil prices will stimulate global economic growth. In summary, we are happy with the Fund's performance and we recognize volatility can be frustrating; we are bullish on the portfolio but we strongly encourage patience as volatility in oil can have knock-on effects on non-resource equities as we've seen.

Performance

	2014	* Since Inception
NGM Canadian Equity Fund	19.4%	27.8%
S&P/TSX Composite Index	10.6%	13.2%

* *since June 15, 2012*

Sector Mix



CANADIAN EQUITY FUND

As of December 31, 2014

	%
Sandvine Corporation	9.72
WestJet Airlines Ltd.	6.71
Open Text Corporation	6.55
Bombardier Inc., Class B	6.48
Dorel Industries Inc., Class B	5.22
Celestica Inc.	5.19
Avigilon Corporation	5.17
COM DEV International Ltd.	4.81
CAE Inc.	4.62
Ballard Power Systems Inc.	4.23
ATS Automation Tooling Systems Inc.	4.19
Martinrea International Inc.	4.13
EXFO Inc.	3.94
Jean Coutu Group (PJC) Inc., Class A	3.81
MacDonald Dettwiler and Associates Ltd.	3.74
GSI Group Inc.	3.56
Sierra Wireless Inc.	3.11
Heroux-Devtek Inc.	2.81
Mitel Networks Corp.	2.46
Stantec Inc.	2.41
Valeant Pharmaceuticals International Inc.	2.08
TELUS Corporation	1.68
IMRIS Inc.	1.25
Oncolytics Biotech Inc.	0.22
Total Equities	**98.09**
Cash	**1.91**
TOTAL ASSETS	**100.00**

NGM Canadian Money Market Fund

The Money Market Fund's current yield at the end of 2014 was 0.92%, a slight increase of 0.07% from the 0.85% yield at the beginning of the year. In 2014, the Fund returned 0.88% which slightly underperformed the 0.91% return for 30-day Treasury Bills. Over a five year period, the average annual return for the Fund was 0.76%, or 0.06% below the 0.82% average annual return for 30-day Treasury Bills.

In 2014, the Bank of Canada maintained its target for the overnight rate at 1.0% for the fourth consecutive year. The Canadian economy has shown signs of a gradual recovery, driven by higher net exports, household and business spending. Inflationary pressures, which ticked up recently due to unexpected sector-specific factors, will likely ease as lower oil prices are reflected in future inflation figures. The Bank of Canada unexpectedly lowered its target for the overnight rate by 0.25% to 0.75% in mid-January, citing the negative impact of sharply lower oil prices on Canada's economic growth and underlying inflation.

Due to the short average maturities within the Money Market Fund of approximately 30 days, the direction of the Fund's current yield corresponds closely with the direction in Canadian short-term interest rates. The Fund continues to invest in a well-diversified portfolio of Canadian money market securities with an emphasis on high credit ratings.

NORTH GROWTH CANADIAN MONEY MARKET FUND

Annualized Rates of Returns (%) for Periods Ending December 31, 2014

	* Current Yield	1 Year	3 Years	5 Years
NGM CDN Money Market Fund	**0.92**	**0.88**	**0.87**	**0.76**
30 Day T-Bill	N/A	0.91	0.92	0.82

* *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..*

NORTH GROWTH PROSPECTUS FUNDS

Both our Canadian Equity Fund and our U.S. Equity Advisor Fund have Series F and Series D units and are available to the general public through registered dealers for a minimum investment of $5,000 and a minimum subsequent purchase of $1,000. Series F Units of each Fund are charged the Fund's low all-inclusive management fee and no trailing fee (suitable for fee-for-service dealers), and Series D units are charged the Fund's low all-inclusive management fee and a 0.50% trailer fee.

The U.S. Equity Advisor Fund has been available since October 2009 and Series F and D units of the Canadian Equity Fund have been available since June 2012. Performance information for both North Growth prospectus funds is publicly available through SEDAR, your dealer, or us.

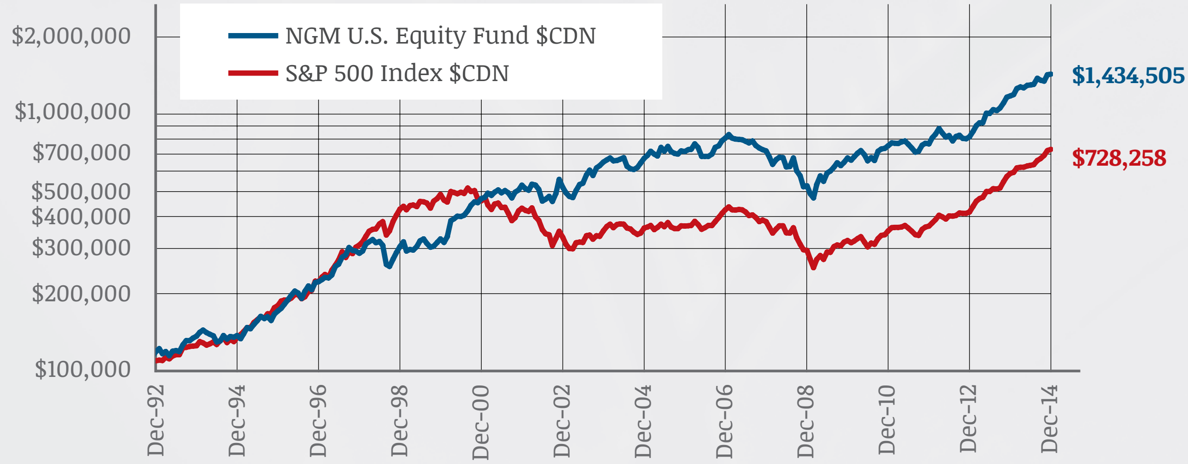
Please note that units of the North Growth U.S. Equity Fund and the Canadian Equity Fund Series N are now only available for purchase in your direct North Growth account.

NGM U.S. EQUITY ADVISOR FUND SERIES F AND SERIES D
NGM CANADIAN EQUITY FUND SERIES F AND SERIES D

Fund Code	Fund Series	Trailing Fee	MER (incl. trailer fee)
370 (C$) 371 (US$)	U.S. Equity Advisor Fund Series F	N/A	1.20%
372 (C$) 373 (US$)	U.S. Equity Advisor Fund Series D	0.50%	1.70%
270	Canadian Equity Fund Series F	N/A	1.25%
272	Canadian Equity Fund Series D	0.50%	1.75%

U.S. EQUITY FUND SINCE INCEPTION $CDN

An investment of $100,000 CDN from inception to December 31, 2014:



The U.S. stock market proved to be highly resilient in 2014, with the S&P 500 Index gaining 13.7% subsequent to a 32.4% rally in the previous year. During the current bull market run since 2009, the fourth longest bull market post-World War II according to data from Standard & Poor's, the S&P 500 appreciated over 200% and reached a new high on an inflation-adjusted basis in late 2014. Despite the remarkable ascent of U.S. equities, however, market sentiment has been muted and investors have maintained caution and skepticism. As in the prior years, equities climbed a solid "wall of worry" in 2014. The list of concerns throughout the year included weakening foreign economies, geopolitical tensions in Ukraine and the Middle East, U.S. Federal Reserve tapering of monetary stimulus, fears of the Ebola virus becoming epidemic, and finally a steep decline in oil prices. While U.S. equities in general advanced amidst all the noise, large capitalization stocks outperformed mid and small caps meaningfully last year, most likely signaling the beginning of a logical mid-cycle rotation to a multi-year period of large capitalization market leadership.

Economic Discussion

The U.S. economy got off to a weak start in 2014 largely as a result of bitter winter weather across most of the country. The adverse weather had a severe, negative impact on the economy in the first quarter, disrupting production, construction and shipments, and deterring home and auto sales. Yet as the underlying conditions supporting the U.S. economic expansion—growth in bank loans, robust manufacturing, improving consumer sentiment and steady employment growth—remained intact and continued to strengthen, the first quarter setback was a temporary anomaly with pent-up demand unleashed following the first few months of the year.

Based on the final estimates released by the U.S. Department of Commerce, U.S. gross domestic product or GDP contracted at an annualized rate of 2.1% in the first quarter, then rebounded sharply and grew 4.6% in the second quarter and 5.0% in the third quarter. Notably, the second and third quarter GDP growth rates represented the two strongest back-to-back quarters of growth by the U.S. economy in over a decade.

The Commerce Department's preliminary estimate of fourth quarter GDP will be announced on January 30, 2015. Most economists forecast a deceleration in the rate of growth from the unusually high pace of the third quarter; however, with expectations for fourth quarter GDP to rise around 3%, it is clear the U.S. economy is in a sustained, durable expansion.

Currently in its sixth year, the economic expansion added significant momentum near the end of 2014. According to the Institute for Supply Management (ISM), in December, economic activity in the manufacturing sector expanded for the 19th consecutive month while economic activity in the non-manufacturing sector grew for the 59th consecutive month. Moreover, the U.S. labour market improved significantly in 2014 over 2013, delivering the best year for employment gains since 1999. Over the year, the average job growth in the U.S. was 246,000 jobs per month, a substantial increase from 194,000 in 2013. The unemployment rate ended the year at 5.6%, a six-year low and much better than the 6.7% rate at the beginning of 2014. Measures of consumer sentiment by the University of Michigan and consumer confidence by the Conference Board picked up towards the end of the year and registered their highest readings in December since January 2007 and February 2008 respectively.

Going forward, the U.S. consumer and the overall economy stand to benefit from the rapidly falling energy prices which dominated news headlines during the latter part of 2014. The U.S. benchmark crude, West Texas Intermediate, ended the year trading at $53.45 per barrel, almost half the level at which it traded at the start of 2014, with all the slump occurring since mid-June. The near-50% plunge in oil happened as traders and analysts began to finally focus on the supply side economics of crude, leading to the realization of a global supply glut of the commodity.

As the price of oil hovered around $100 a barrel over the past four years, production in the United States ballooned. The increased extraction of oil from shale formations that previously had been considered unviable boosted U.S. oil output by over 30% since 2010 to approximately 9 million barrels a day (b/d), just 1 million b/d shy of Saudi Arabia's output. Certainly, the shale boom in the U.S. was a contributor to economic growth over the past few years; however, the vast majority of the U.S. economy was negatively affected by high energy prices and managed to weather the headwind remarkably.

Cheaper oil, therefore, would be undoubtedly positive for U.S. economic growth. Apart from the oil drilling and oil-field services industries, virtually all other sectors of the economy are aided by a lower cost of fuel. Gas prices at the pumps have already declined to a four-year low, providing the typical American motorist with noticeable savings—equivalent to a tax cut or pay raise. In addition to consumers, lower energy prices would provide a welcome lift to transportation companies, agriculture-related firms, manufacturers, and retailers.

Monetary Policy

As U.S. economic growth gained momentum and the labour market strengthened substantially throughout 2014, the Federal Reserve modestly reduced the pace of its debt purchases beginning in January and officially ended its quantitative easing program in October. Although the Fed halted its asset purchases, U.S. monetary policy remained extremely loose last year and continues to be highly accommodative. The exceptionally low target range for the federal funds rate of 0 to 1/4 percent was reaffirmed consistently, and following its December meeting, the Federal Open Market Committee (FOMC) announced that “it can be patient in beginning to normalize the stance of monetary policy.”

Despite a more upbeat assessment of the U.S. economy near the end of 2014, the FOMC maintained in October, and reiterated the message in December that “it likely will be appropriate to maintain the 0 to 1/4 percent target range for the federal funds rate for a considerable time following the end of its asset purchase program…especially if projected inflation continues to run below the Committee’s 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.” Annual inflation is currently running below the Fed target at 1.7%, and as lower oil prices feed through reducing already-low inflation more, the Fed may put off raising interest rates for longer. Continued U.S. monetary policy accommodation in 2015 should further promote higher economic growth and provide a favourable backdrop for equities.

U.S. Companies and Stocks

Last year, U.S. companies continued to grow earnings that consistently came in above expectations every quarter. According to FactSet, earnings of the S&P 500 companies increased 2.1% year-over-year in the first quarter, 7.5% year-over-year in the second quarter, and 8.0% over a year ago in the third quarter of 2014. On September 30th, the estimated earnings growth rate for the fourth quarter was 8.4%. However, by January 9, 2015, that forecast had been slashed to 1.1%, largely as a result of downward revisions to earnings estimates across the board, with the most significant cuts made in the energy sector. Based on the historical pattern of analysts’ reduction of earnings estimates ahead of quarterly reports and the average number of companies that report actual earnings above estimated earnings in recent years, it is likely the S&P 500 Index will report actual earnings growth greater than 1.1% year-over-year for the final quarter of 2014.

In 2014, healthcare companies and traditional, well-established technology companies delivered some of the best performance in the equity markets. The North Growth U.S. Equity Fund, with its heavy weightings in technology and healthcare, benefitted as certain long-term core positions such as Intel and Microsoft gained 40% and 24% respectively.

More significantly, large capitalization stocks vastly outperformed small cap stocks in 2014. Prior to March of last year, small caps had delivered greater returns than mid caps which had outperformed large caps over the duration of five, ten and even fifteen years. The performance run of smaller capitalization stocks over larger caps since 2000 appeared to come to an end last year. Alongside the market rotation from small cap stocks to large caps was the rotation from overpriced, “growth at any price" stocks to more reasonably-valued technology bellwethers such as Microsoft, Cisco and Intel.

The small capitalization valuation premium to large capitalization stocks has been pushing up against historical highs for the past several years and even with the underperformance of small caps relative to large caps last year, small caps continue to trade near the top of their historical premium range. According to Bloomberg, the S&P 500 Index, a proxy for large capitalization stocks in the United States, is valued at 18 times trailing 12-month earnings. The comparable price/earnings (P/E) multiple for the S&P 400 MidCap Index is 23 and for the S&P 600 SmallCap Index is 26. By contrast, in 2000, when mega caps were trading at a large premium to small caps, the P/E multiple of the S&P 500 was at 29 versus the S&P 600 SmallCap at 19.

We view the market rotations that began last year from small cap to large cap stocks and from overpriced high-flyers to "growth at a reasonable price" equities as long overdue and rational. The ongoing broad rotation toward large capitalization, more value-oriented equities should continue for a number of years, and is a development from which the U.S. Fund is well positioned to benefit.

Outlook for 2015

As the bull market extends into a seventh year, investor sentiment remains biased toward caution. In 2014, market participants continued to focus on potentially negative data, ranging from geopolitical turmoil in Ukraine and the Middle East to the Ebola outbreak and to slowing economies in Europe and Asia. While trading volumes picked up last year around 3% from the exceedingly low levels in 2013, net flows into equity mutual funds were subdued. A major rotational reversal from bonds to stocks has yet to materialize.

Trading at a current forward 12-month P/E multiple of 16, the S&P 500 Index is reasonably valued. According to data compiled by Bloomberg and Standard & Poor's, the valuation of the S&P 500 is close to the average since 1937, and substantially below the consistently above 20 P/E ratio of the late '90s.

Although the North Growth U.S. Equity Fund remains fully invested heading into 2015, we are actively managing the portfolio, making minor adjustments when presented with relative opportunities. We continue to believe stock selection is key to outperformance and focus, as always, on the analysis of individual stocks that adhere to our "growth at a reasonable price" investment philosophy.

HOW TO BUY OUR FUNDS

Direct

The North Growth U.S. Equity Fund, the North Growth Canadian Equity Fund (Series N) and the North Growth Canadian Money Market Fund are available directly from us. The minimum initial investment is $150,000 CDN, minimum subsequent investments $10,000 CDN.

From a registered dealer

The North Growth U.S. Equity Advisor Fund and the North Growth Canadian Equity Fund (Series D and Series F) are available through your regular full service broker, fee for service advisor or discount brokerage. The minimum initial investment is $5,000 CDN, minimum subsequent investments $1,000 CDN.

Registered dealers with clients interested in purchasing units of the North Growth U.S. Equity Advisor Fund and/or the North Growth Canadian Equity Fund (Series D and Series F) can do so through FundSERV.

NGM U.S. EQUITY ADVISOR FUND SERIES F AND SERIES D
NGM CANADIAN EQUITY FUND SERIES F AND SERIES D

Fund Code	Fund Series	Trailing Fee	MER (incl. trailer fee)
370 (C$) 371 (US$)	U.S. Equity Advisor Fund Series F	N/A	1.20%
372 (C$) 373 (US$)	U.S. Equity Advisor Fund Series D	0.50%	1.70%
270	Canadian Equity Fund Series F	N/A	1.25%
272	Canadian Equity Fund Series D	0.50%	1.75%

The U.S. Equity Advisor Fund has been available since October 2009 and Series F and D units of the Canadian Equity Fund have been available since June 2012. Performance information for both North Growth prospectus funds is publicly available through SEDAR, your dealer, or us.

Please note that units of the North Growth U.S. Equity Fund and the Canadian Equity Fund Series N are now only available for purchase in your direct North Growth account.

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