

## US Equity Fund

We are pleased with the performance of the North Growth US Equity Fund during the first half of 2014 with a return of 10.0% in US dollars and healthy outperformance of all the major indices we regularly follow (see table on page 3). The U.S. Fund's Canadian dollar return for the period is almost the same at 10.3% as the Canadian dollar rallied throughout the second quarter, taking back pretty much the full 4% gain from the currency that accrued to Canadian investors during the first quarter. Our view on the U.S./Canadian dollar remains basically neutral in the short term with a slight bias towards Canadian dollar weakness over the longer term.

In June, the U.S. Fund gained 1.9% in U.S. dollars, slightly lagging the S&P 500 total return of 2.1%. The NASDAQ Composite, mid-, and small-capitalization indices were up 4.0%, 4.1% and 4.7% respectively, snapping back a bit after a period of considerable relative weakness during the spring. Despite this snap back, we continue to believe that we are most likely at the start of a multi-year period of relative strength for large capitalization U.S. equities and the Fund is positioned accordingly. Within the technology heavy NASDAQ Composite we find the biggest dispersion between the valuations of growth-at-any-price, momentum names (Twitter, Amazon, Facebook, etc.) and growth-at-a-reasonable-price names (Cisco, Apple, Intel, Microsoft, etc.) allowing us to have a heavy technology exposure while staying disciplined and committed to our investment philosophy.

## Canadian Equity Fund

The North Growth Canadian Equity Fund is also off to a solid start for the year with a 16.7% return for the first six months versus 12.9% for the S&P/TSX Composite. We are still restricted from publishing full historical results of the Canadian Fund due to the filing of a prospectus on June 15, 2012. The longest term performance we are permitted to publish is 2 years with the Canadian Fund gaining 33.3% per annum for the past 2 years versus 17.8% for the S&P/TSX Composite.

The Canadian Fund gained 2.3% during June, but lagged the 4.1% gain of the S&P/TSX Composite as the recent strength in commodity related securities continued to bolster the Canadian market. This trend has been evident throughout the second quarter with the S&P/TSX Composite gaining 6.4% versus 2.0% for the Canadian Equity Fund.

## The Dreaded Goldilocks...

Over the past decade or so the Goldilocks reference has been used periodically by analysts and the financial media to describe the market and/or the economy as being not too hot nor too cold but just right. After the financial crisis a superstition has developed with

commentators fearful of suggesting that things are generally looking pretty good in fear of jinxing the market. Currently this appears to be the situation as the biggest concerns right now appear to be that volatility (the supposed measure of risk) is low, the U.S. economy seems to be poised for a period of accelerating growth, and corporate earnings are growing nicely. How could the market possibly hit new highs in this scenario?

Higher volatility is “supposed” to indicate higher risk. Ironically, the current low levels of volatility is often being cited as one of the biggest risks in the market. In our opinion volatility is a poor measure of risk that emphasizes short term thinking. Short term downside moves may be unnerving but the cost of trying to avoid them is very high. The fixation on volatility after the last bear market resulted in many investors moving away from equities. Recent surveys and estimates suggest that on average high net worth individuals are still holding anywhere between 28% and 40% in cash, more than double the levels seen in 2006. Clearly the cost of trying to avoid volatility can be very high. In our opinion, the best way to manage volatility is simply to be a disciplined long term investor.

A lot of noise is also being made over valuations. If you look at valuations using ‘normalized’ earnings, you can argue that US equities are trading near the higher end of historic valuation ranges. The only problem with this measure is that ‘normalized’ earnings generally means taking an average of historic earnings for periods of 5 years or more. With the end of the financial crisis only five years ago, ‘normalized’ earnings are more than 20% below current earnings, making the market appear expensive. We do not believe there is much value in using the earnings power of corporate America during the depths of one of the biggest financial crises in history as a tool to value the future earnings power of these companies. We believe at 18 times current earnings and 15 times forward earnings the S&P 500 is reasonably valued, particularly when you take into account low interest rates and healthy balance sheets. Equities probably cannot be considered ‘cheap’, but current valuations are in line with historic norms in the earlier stages of an economic expansion and at a level that has historically been associated with periods of good equity returns.

The heightened level of global geo-political tensions and conflicts in the Middle East is probably our biggest concern. The most likely mechanism for these issues to impact the economy is from supply disruptions pushing oil prices higher. However this risk appears to be mitigated to a degree with the ample supply of oil. Without the fear of supply disruptions based on supply and demand oil would most likely be trading a lot lower.

The market will inevitably have periods of poor returns often triggered by an unpredictable event, but waiting for the market to check back to buy, or selling because the market has hit new highs, more often than not are terrible long term investment strategies. Our focus, as always will be on the analysis of individual stocks. While we are fully invested and happy with the portfolio, we are constantly looking for opportunities to adjust our portfolio when relative opportunities present themselves.

## NORTH GROWTH U.S. EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending June 30, 2014

|                                 | 1 Month     | 3 Months    | 6 Months     | YTD          |
|---------------------------------|-------------|-------------|--------------|--------------|
| <b>NGM US Equity Fund \$CDN</b> | <b>0.29</b> | <b>1.79</b> | <b>10.33</b> | <b>10.33</b> |
| S&P 500 \$CDN                   | 0.45        | 1.57        | 7.48         | 7.48         |
| <b>NGM US Equity Fund \$US</b>  | <b>1.91</b> | <b>5.47</b> | <b>9.97</b>  | <b>9.97</b>  |
| S&P 500 \$US                    | 2.07        | 5.23        | 7.14         | 7.14         |
| S&P 400 MidCap \$US             | 4.14        | 4.33        | 7.50         | 7.50         |
| S&P 600 SmallCap \$US           | 4.72        | 2.07        | 3.22         | 3.22         |
| NASDAQ Composite \$US           | 3.99        | 5.31        | 6.19         | 6.19         |

## NORTH GROWTH U.S. EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending June 30, 2014

|                                 | 1 Year       | 3 Years      | 5 Years      | 10 Years    | 20 years     | Since Inception |
|---------------------------------|--------------|--------------|--------------|-------------|--------------|-----------------|
| <b>NGM US Equity Fund \$CDN</b> | <b>28.93</b> | <b>19.32</b> | <b>17.11</b> | <b>6.72</b> | <b>12.21</b> | <b>12.54</b>    |
| S&P 500 \$CDN                   | 26.41        | 20.58        | 16.80        | 5.40        | 8.37         | 8.86            |
| <b>NGM US Equity Fund \$US</b>  | <b>27.09</b> | <b>15.37</b> | <b>19.14</b> | <b>9.13</b> | <b>13.68</b> | <b>13.34</b>    |
| S&P 500 \$US                    | 24.61        | 16.58        | 18.83        | 7.78        | 9.79         | 9.63            |
| S&P 400 MidCap \$US             | 25.24        | 15.26        | 21.67        | 10.50       | 12.96        | 12.81           |
| S&P 600 SmallCap \$US           | 25.54        | 16.81        | 21.98        | 9.95        | 11.76        | 11.98           |
| NASDAQ Composite \$US           | 31.21        | 18.28        | 20.59        | 9.22        | 9.58*        | 9.82*           |

Source: Bloomberg "Total Return Analysis" as of Jul 1, 2014.

\*These returns are a simple price appreciation because total return data is not available on Bloomberg.

**Unit Price: \$38.81 CDN**  
**\$36.37 US**

**Total Assets in Fund: \$380.8 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending June 30, 2014

|                                 | 1 Month     | 3 Months    | 6 Months     | YTD          |
|---------------------------------|-------------|-------------|--------------|--------------|
| <b>NGM Canadian Equity Fund</b> | <b>2.29</b> | <b>1.99</b> | <b>16.70</b> | <b>16.70</b> |
| S&P / TSX \$CDN                 | 4.07        | 6.41        | 12.86        | 12.86        |

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending June 30, 2014

|                                 | 1 Year       | 2 Years      | 3 Years    | 5 Years    | 10 Years   |
|---------------------------------|--------------|--------------|------------|------------|------------|
| <b>NGM Canadian Equity Fund</b> | <b>36.40</b> | <b>33.31</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| S&P / TSX \$CDN                 | 28.66        | 17.82        | N/A        | N/A        | N/A        |

**Unit Price: \$ 21.29 CDN**

**Total Assets in Fund: \$ 41.9 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending June 30, 2014**

|                                  | *CURRENT<br>YIELD | 1 Year      | 3 Years     | 5 Years     |
|----------------------------------|-------------------|-------------|-------------|-------------|
| <b>NGM CDN Money Market Fund</b> | <b>0.89</b>       | <b>0.86</b> | <b>0.85</b> | <b>0.68</b> |
| 30 Day T-Bill                    | N/A               | 0.92        | 0.91        | 0.74        |

*\* 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 0.89% 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 June 30, 2014**

|                                | %                  |
|--------------------------------|--------------------|
| Apple Inc.                     | 9.48               |
| Cisco Systems Inc.             | 9.11               |
| GT Advanced Technologies Inc.  | 6.04               |
| Intel Corporation              | 5.71               |
| St. Jude Medical Inc.          | 4.72               |
| Microsoft Corporation          | 4.34               |
| Wellpoint Inc.                 | 4.06               |
| Citrix Systems Inc.            | 3.69               |
| First Solar Inc.               | 3.42               |
| Electronic Arts Inc.           | 3.23               |
| Texas Instruments Inc.         | 3.21               |
| Zimmer Holdings Inc.           | 3.18               |
| Gilead Sciences Inc.           | 2.88               |
| Pfizer Inc.                    | 2.71               |
| Precision Castparts Corp.      | 2.69               |
| Rite Aid Corporation           | 2.57               |
| Cerner Corporation             | 2.53               |
| Bristol Myers Squibb Company   | 2.49               |
| Hermann Miller Inc.            | 2.40               |
| Pier 1 Imports Inc.            | 2.34               |
| Varian Medical Systems Inc.    | 2.07               |
| Amgen Inc.                     | 2.01               |
| Qualcomm Inc.                  | 2.00               |
| Ethan Allen Interiors Inc.     | 1.77               |
| DSP Group Inc.                 | 1.53               |
| General Electric Company       | 1.51               |
| Gap Inc.                       | 1.45               |
| Applied Materials Inc.         | 1.38               |
| Jacobs Engineering Group Inc.  | 1.38               |
| Johnson Controls Inc.          | 1.25               |
| American Eagle Outfitters Inc. | 1.13               |
| Itron Inc.                     | 1.01               |
| Endocyte Inc.                  | 0.17               |
| <b>Total Equities</b>          | <b>99.47</b>       |
| <b>Cash</b>                    | <b><u>0.53</u></b> |
| <b>TOTAL ASSETS</b>            | <b>100.00</b>      |

**CANADIAN EQUITY FUND**  
**As of June 30, 2014**

|   | %                  |
|---|--------------------|
| Sandvine Corporation                        | 10.03              |
| Ballard Power Systems Inc.                  | 7.41               |
| Celestica Inc.                              | 6.11               |
| Bombardier Inc., Class B                    | 5.94               |
| Open Text Corporation                       | 5.37               |
| Martinrea International Inc.                | 5.09               |
| COM DEV International Ltd.                  | 4.86               |
| Dorel Industries Inc., Class B              | 4.62               |
| WestJet Airlines Ltd.                       | 4.50               |
| EXFO Inc.                                   | 4.45               |
| ATS Automation Tooling Systems Inc.         | 4.26               |
| CAE Inc.                                    | 4.08               |
| Valeant Pharmaceuticals International, Inc. | 3.86               |
| Avigilon Corporation                        | 3.52               |
| MacDonald Dettwiler and Associates Ltd.     | 3.46               |
| Jean Coutu Group (PJC) Inc., Class A        | 3.08               |
| GSI Group Inc.                              | 2.86               |
| Sierra Wireless Inc.                        | 2.53               |
| Stantec Inc.                                | 2.52               |
| Saputo Inc.                                 | 1.98               |
| Heroux-Devtek Inc.                          | 1.87               |
| TELUS Corporation                           | 1.61               |
| IMRIS Inc.                                  | 1.57               |
| QLT Inc.                                    | 1.43               |
| Mitel Networks Corp                         | 1.21               |
| Oncolytics Biotech Inc.                     | 0.48               |
| <b>Total Equities</b>                       | <b>98.73</b>       |
| <b>Cash</b>                                 | <b><u>1.27</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 3 p.m. Eastern time or 12 p.m. Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to **RBC 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).