

U.S. equities continued to drift higher in September. The S&P 500 Index appreciated 2.6%, followed closely by the S&P 600 SmallCap which gained 2.3% for the month. The S&P 400 MidCap was up 1.9% while the technology-focused NASDAQ Composite climbed 1.7%. The North Growth U.S. Equity Fund returned 1.3% in September, lagging all of the indices we regularly follow. As the Canadian dollar continued to strengthen slightly last month, the Fund's return in Canadian dollars was 1.0% versus the S&P 500 which gained 2.3% in Canadian dollars.

Over the past several months, as the economic situation in the Euro zone has deteriorated and China's economy appears to be headed for a hard landing, worries about slower global growth have been a constant pressure on U.S. stocks. However, despite these negative headwinds, in addition to frequent mention of the impending U.S. fiscal cliff, the equity markets did not experience a summer sell-off as anticipated due to the Fed's announcement of its highly anticipated open-ended quantitative easing program and to stronger than expected U.S. economic data.

The U.S. economy has demonstrated remarkable resilience. In September, manufacturing in the U.S. expanded for the first time since May as new orders and employment picked up, a stark contrast to the weak manufacturing reports from Asia and Europe. Similarly, the Institute for Supply Management's non-manufacturing index rose to a six-month high last month and exceeded all the economists' projections in a Bloomberg survey. Vehicle sales totalled 14.9 million in September, representing an increase of 65% from the recession low and the highest level in 4 years. Collectively, U.S. housing data, measures of consumer confidence, and bank lending have all continued to strengthen since the summer.

While the recovery in the U.S. labour market has not been as robust as the other economic indicators, part of the high unemployment rate may be attributed to the elevated level of uncertainty about future economic conditions. According to a recent Federal Reserve study, "uncertainty has pushed up the U.S. unemployment rate by between one and two percentage points since the start of the financial crisis in 2008". Definitively, U.S. corporations are fundamentally strong with exceptional balance sheets flush with cash; however, doubts about economic issues including fiscal policy are having negative effects. As the authors of the Federal Reserve study wrote, "the private sector responds to rising uncertainty by cutting back spending".

Indicative of the strength of U.S. companies are rising dividends. Dividends increased 20% year-over-year in the third quarter and were well above their prior peak. Although dividend yields on stocks have trended higher, companies' payout ratios remain low,

meaning that there is still much room for dividends to grow. Numerous holdings in the North Growth U.S. Equity Fund have boosted their dividend payouts over the past few years. In September, Texas Instruments and Microsoft announced further increases to their quarterly dividends by 24% and 15% respectively; both stocks are now yielding 3.1%. Additionally, American Eagle Outfitters declared a special cash dividend last month of \$1.50 per share, which represented over 6% of the stock price.

Overall, the dividend yields of U.S. equities are especially attractive relative to bond and bill yields. According to ISI Group, the S&P 500 dividend yield is 2.18%, which is close to a record high relative to 10-year Treasury yields of 1.64% and 3-month T-Bill yields of around 0%. Excluding special dividends, the dividend yield on the U.S. Fund is currently 1.95%.

We remain steadfast in our conviction that U.S. equities offer compelling investment opportunities for superior returns in the long run. Yet we have no control over market sentiment. As the North Growth U.S. Equity Fund approaches its 20th anniversary on October 12th, we are gratified by the Fund's long term record of excellent absolute and relative performance.

Yours truly,

A handwritten signature in black ink, appearing to read "Erica Lau". The signature is fluid and cursive, with a period at the end.

Erica Lau, CFA

NORTH GROWTH U.S. EQUITY FUND

Short Term Rates of Return (%) for Periods Ending September 30, 2012

	1 Month	3 Months	6 Months	YTD
NGM US Equity Fund \$CDN	1.00	0.19	-5.94	8.03
S&P 500 \$CDN	2.32	2.71	1.94	12.57
NGM US Equity Fund \$US	1.26	3.75	-4.57	11.74
S&P 500 \$US	2.58	6.35	3.42	16.44
S&P 400 MidCap \$US	1.94	5.44	0.24	13.77
S&P 600 SmallCap \$US	2.33	5.40	1.62	13.80
NASDAQ Composite \$US	1.70	6.53	1.47	20.72

NORTH GROWTH U.S. EQUITY FUND

Annualized Rates of Return (%) for Periods Ending September 30, 2012

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
NGM US Equity Fund \$CDN	15.50	8.59	1.87	6.11	6.94	11.18
S&P 500 \$CDN	22.13	10.03	0.82	2.96	2.35	7.35
NGM US Equity Fund \$US	23.14	11.72	2.11	11.32	9.39	12.49
S&P 500 \$US	30.20	13.20	1.05	8.01	4.70	8.63
S&P 400 MidCap \$US	28.54	14.33	3.83	10.77	8.94	11.77
S&P 600 SmallCap \$US	33.35	15.14	3.29	10.74	7.33	10.86
NASDAQ Composite \$US	30.63	14.92	3.96	11.20	4.88	8.82*

Source: Bloomberg "Total Return Analysis" as of October 2, 2012.

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

The inception of the Fund: October 13, 1992.

Unit Price: \$26.00 CDN
\$26.45 US

Total Assets in Fund: \$252.9 Million CDN

NORTH GROWTH CANADIAN EQUITY FUND

Short Term Rates of Return (%) for Periods Ending September 30, 2012

	1 Month	3 Months	6 Months	YTD
NGM Canadian Equity Fund	N/A	N/A	N/A	N/A
S&P / TSX \$CDN	3.43	7.02	0.95	5.38

NORTH GROWTH CANADIAN EQUITY FUND

Annualized Rates of Return (%) for Periods Ending September 30, 2012

	1 Year	3 Years	5 Years	10 Years	*Since Takeover	**Since Inception
NGM Canadian Equity Fund	N/A	N/A	N/A	N/A	N/A	N/A
S&P / TSX \$CDN	9.17	5.52	0.22	9.83	9.28	3.12

*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.

Unit Price: \$ 12.99 CDN

Total Assets in Fund: \$ 22.2 Million CDN

NORTH GROWTH CANADIAN MONEY MARKET FUND
Annualized Rates of Returns (%) for Periods Ending September 30, 2012

	*CURRENT YIELD	1 Year	3 Years	5 Years
NGM CDN Money Market Fund	0.85	0.84	0.62	1.24
30 Day T-Bill	N/A	0.88	0.68	1.19

** 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 0.85% 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, 2012

	%
Apple Inc.	10.97
Cisco Systems Inc.	9.76
Pier 1 Imports Inc.	5.33
Intel Corporation	5.22
Bristol-Myers Squibb Company	5.05
Microsoft Corporation	4.65
St. Jude Medical Inc.	4.14
Pfizer Inc.	3.39
American Eagle Outfitters Inc.	3.29
Texas Instruments Inc.	3.22
Cerner Corporation	3.10
Zimmer Holdings Inc.	2.89
Citrix Systems Inc.	2.79
Precision Castparts Corp.	2.58
Electronic Arts Inc.	2.51
WellPoint Inc.	2.22
Herman Miller Inc.	2.15
Varian Medical Systems Inc.	2.10
DSP Group Inc.	2.02
Safeway Inc.	1.96
Applied Materials Inc.	1.94
GT Advanced Technologies Inc.	1.71
Micron Technology, Inc.	1.61
General Electric Company	1.60
Savient Pharmaceuticals Inc.	1.50
Johnson Controls Inc.	1.40
Flow International Corporation	1.35
NIKE Inc., Class B	1.29
Guess? Inc.	1.28
Cheesecake Factory Inc.	1.28
Ethan Allen Interiors Inc.	1.11
Citigroup Inc.	1.10
Jacobs Engineering Group Inc.	0.99
Rite Aid Corporation	0.83
Gilead Sciences Inc.	0.74
Itron Inc.	0.51
Total Equities	99.59
Cash	<u>0.41</u>
TOTAL ASSETS	100.00

CANADIAN EQUITY FUND
As of September 30, 2012

	%
Bombardier Inc., Class B.	6.93
WestJet Airlines Ltd.	6.74
Celestica Inc.	6.61
Sandvine Corporation	6.36
Valeant Pharmaceuticals International, Inc.	5.21
EXFO Inc.	5.18
Sierra Wireless Inc.	5.03
COM DEV International Ltd.	4.99
ATS Automation Tooling Systems Inc.	4.96
Dorel Industries Inc., Class B	4.85
CAE Inc.	4.72
MacDonald, Dettwiler and Associates Ltd.	4.19
QLT Inc.	3.64
Open Text Corporation	3.60
Jean Coutu Group (PJC) Inc., Class A	3.54
GSI Group Inc.	3.38
Imris Inc.	3.38
Saputo Inc.	2.40
Stantec Inc.	2.34
TELUS Corporation	2.30
Heroux-Devtek Inc.	1.73
Ballard Power Systems Inc.	1.00
Martinrea International Inc.	0.92
Research in Motion Limited	0.36
Azure Dynamics Corporation	0.01
Total Equities	94.37
Cash	<u>5.63</u>
TOTAL ASSETS	100.00

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 Investor Services Trust**. For security reasons, instructions can only be accepted by mail or by fax to:

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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 reports prices on www.globefund.com.