

Fund News and Performance

The renewal of our Fund prospectus on June 14 was the most significant event of the month for North Growth as we are now once again permitted to publish performance results for the North Growth Canadian Equity Fund. Unfortunately, although we have been managing the Canadian Fund since April 30, 2003, due to the securities rules surrounding prospectus distribution, going forward we will only be able to publish performance results for the Canadian Fund going back to June 15, 2012. We are also happy to have filed our offering documents in French allowing for distribution of our prospectus offerings in Quebec for the first time.

In June, the Canadian Equity Fund continued to build on recent strength gaining 2.4%, as compared to a 3.8% decline for the TSX Composite Index. Year-to-date and for the one year period to June 30th the Fund was up 23.4% and 30.3% respectively versus -0.9% and +7.9% for the TSX Composite.

The S&P/TSX Composite Index has performed poorly over the past five years with an average annual total return of -0.5% to June 30, 2013. Similar to the main Canadian benchmark, most Canadian equity portfolios have a heavy concentration in the financial and resource sectors. Despite the poor performance of resource stocks over the past few years, we continue to believe there is considerable risk of a prolonged period of poor performance for mainstream Canadian equity portfolios due primarily to the apparent disregard of evidence of a growing structural oversupply of oil. Peak oil rhetoric has vanished from the mainstream media as commentators focus on the surging supplies of shale oil. We agree that the shale oil supply is significant but believe it will be dwarfed over the next decade by the addition of deep sea resources unlocked from the incredible investment, which we estimate is at least \$50 billion over the past decade, in drill ships and rigs capable of drilling in 10,000 feet or more of water.

For a number of years we have been encouraging our clients and readers of this report to seriously consider increasing the diversification of their Canadian equity holdings by adding the North Growth Canadian Equity Fund which currently has no exposure to financial or resource stocks. For the past year, without being able to show performance, it has been difficult to support this argument. Although the reportable performance periods for the Canadian Fund are still rather short term, we believe recent results do provide solid evidence of the diversification benefit this Fund can provide.

After the recent strong rally U.S. equities took a pause in June—selling off a little at the end of the month on comments from U.S. Federal Reserve Chairman Ben Bernanke that, with the economy showing signs of strength, the Fed would likely slow the quantitative easing program by the end of the year. This should not be news to anybody. The fact that these comments triggered a short term sell-off is probably a good thing as it shows that sentiment

remains remarkably cautious and we continue to have a solid wall of worry to climb. The U.S. Fund was -1.6% for the month versus -1.3% for the S&P 500 and -1.4% for the NASDAQ. The Canadian dollar continued to weaken, resulting in the Fund being down only 0.2% in Canadian dollars. Year-to-date, in Canadian dollars, the Fund is up 23.4% putting it approximately 3% ahead of the S&P 500 and 4% ahead of the NASDAQ.

On my mind...from Rory's desk

Sometimes I am amazed by the themes the financial media jabbars on about. Most recently a slew of articles talking about the potential for small caps to 'begin' to outperform have been published. Really? Maybe small caps have slightly underperformed over the past 2 years but barely. Just look at the performance figures on page 3. Small caps have been outperforming large caps since 2000. On a valuation basis, small caps are and have been trading near the top of their historical premiums to large caps for most of the past 5 years. The Leuthold Group does a nice breakdown of valuations by market capitalization in their monthly Green Book that shows that mega cap stocks are trading at P/E multiples of 13.9x 2013 expected earnings and the multiples steadily increase as you move to small and micro caps trading at 18x. Back in December 99 when the small cap outperformance began mega cap stocks were trading at P/E multiples of 35x with the multiples steadily declining as you moved to small caps at 16.9x and micro caps at 14.9x. Obviously mega caps were way over valued back then but the relative valuations are telling. If anything I would say that over the past few months the market is recognizing the relative value of macro caps, possibly bringing an end to a remarkable 13-year period of small cap outperformance.

Don't even get me started about gold.

The last word

We are on a campaign to increase the number of unitholders in the Canadian Fund. Last year's restructuring of the Canadian Fund to a multi-series fund and the filing of the prospectus for the series D and F units helps us with this as it provides for a \$5,000 minimum investment through the broker channel. In addition, for the time being we are permitting existing direct clients who are BC residents or Accredited Investors to also invest at the \$5,000 minimum level. The minimum investment for new direct clients will continue to be \$150,000 that can be split between our Funds based on the availability of prospectus exemptions.

NORTH GROWTH U.S. EQUITY FUND

Short Term Rates of Return (%) for Periods Ending June 30, 2013

	1 Month	3 Months	6 Months	YTD
NGM US Equity Fund \$CDN	-0.21	8.90	23.37	23.37
S&P 500 \$CDN	0.08	6.54	20.33	20.33
NGM US Equity Fund \$US	-1.63	5.20	16.70	16.70
S&P 500 \$US	-1.34	2.91	13.82	13.82
S&P 400 MidCap \$US	-1.85	1.00	14.59	14.59
S&P 600 SmallCap \$US	-0.15	3.92	16.19	16.19
NASDAQ Composite \$US	-1.42	4.52	13.42	13.42

NORTH GROWTH U.S. EQUITY FUND

Annualized Rates of Return (%) for Periods Ending June 30, 2013

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
NGM US Equity Fund \$CDN	21.94	15.24	10.11	6.46	7.96	11.23
S&P 500 \$CDN	24.59	17.98	7.68	4.67	1.95	7.59
NGM US Equity Fund \$US	18.03	15.71	9.43	9.13	10.38	12.33
S&P 500 \$US	20.60	18.45	7.01	7.30	4.24	8.66
S&P 400 MidCap \$US	25.18	19.45	8.91	10.74	9.53	11.69
S&P 600 SmallCap \$US	25.17	20.27	9.94	10.77	8.37	10.57
NASDAQ Composite \$US	17.83	18.80	9.48	8.84	4.84	8.19*

Source: Bloomberg "Total Return Analysis" as of July 1, 2013.

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

Unit Price: \$31.33 CDN
\$29.79 US

Total Assets in Fund: \$299.6 Million CDN

NORTH GROWTH CANADIAN EQUITY FUND

Short Term Rates of Return (%) for Periods Ending June 30, 2013

	1 Month	3 Months	6 Months	YTD
NGM Canadian Equity Fund	2.35	7.74	23.44	23.44
S&P / TSX \$CDN	-3.76	-4.08	-0.88	-0.88

NORTH GROWTH CANADIAN EQUITY FUND

Annualized Rates of Return (%) for Periods Ending June 30, 2013

	1 Year	3 Years	5 Years	10 Years
NGM Canadian Equity Fund	30.30	N/A	N/A	N/A
S&P / TSX \$CDN	7.90	5.39	-0.53	8.41

Unit Price: \$ 16.49 CDN

Total Assets in Fund: \$ 29.1 Million CDN

NORTH GROWTH CANADIAN MONEY MARKET FUND
Annualized Rates of Returns (%) for Periods Ending June 30, 2013

	*CURRENT YIELD	1 Year	3 Years	5 Years
NGM CDN Money Market Fund	0.85	0.87	0.81	0.81
30 Day T-Bill	N/A	0.93	0.86	0.84

** 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 June 30, 2013

	%
Cisco Systems Inc.	11.23
Apple Inc.	7.70
Intel Corporation	5.64
Microsoft Corporation	4.65
Pier 1 Imports Inc.	4.51
St. Jude Medical Inc.	4.29
Wellpoint Inc.	4.04
Bristol-Myers Squibb Company	3.92
American Eagle Outfitters Inc.	3.41
Texas Instruments Inc.	3.39
Cerner Corporation	3.37
Electronic Arts Inc.	3.30
Citrix Systems Inc.	3.28
Pfizer Inc.	3.23
Precision Castparts Corp.	3.03
Zimmer Holdings Inc.	2.89
Safeway Inc.	2.84
Herman Miller Inc.	2.70
DSP Group Inc.	2.55
Gilead Sciences Inc.	2.43
Varian Medical Systems Inc.	2.12
Jacobs Engineering Group Inc.	1.80
Amgen Inc.	1.48
Rite Aid Corporation	1.47
Citigroup Inc.	1.46
Ethan Allen Interiors Inc.	1.31
Flow International Corporation	1.22
Cheesecake Factory Inc.	1.20
GT Advanced Technologies Inc.	1.18
Applied Materials Inc.	1.15
Johnson Controls Inc.	1.13
NIKE Inc., Class B	0.98
Itron Inc.	0.45
Savient Pharmaceuticals Inc.	0.40
Total Equities	99.74
Cash	<u>0.26</u>
TOTAL ASSETS	100.00

CANADIAN EQUITY FUND
As of June 30, 2013

	%
Sandvine Corporation	8.76
Bombardier Inc., Class B.	8.13
Sierra Wireless Inc.	6.93
Celestica Inc.	6.82
WestJet Airlines Ltd.	5.70
COM DEV International Ltd.	5.24
ATS Automation Tooling Systems Inc.	4.87
CAE Inc.	4.60
Open Text Corporation	4.50
Dorel Industries Inc., Class B	4.10
MacDonald, Dettwiler and Associates Ltd.	4.00
EXFO Inc.	3.93
Valeant Pharmaceuticals International, Inc.	3.74
Jean Coutu Group (PJC) Inc., Class A	3.48
Ballard Power Systems Inc.	3.40
Martinrea International Inc.	2.86
GSI Group Inc	2.57
Stantec Inc.	2.44
Imris Inc.	2.18
Saputo Inc.	2.16
TELUS Corporation	1.79
QLT Inc.	1.71
Heroux-Devtek Inc.	0.89
Total Equities	94.80
Cash	<u>5.20</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:

North Growth Management Ltd.
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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.