

## 2011 ANNUAL REPORT

CANADA'S U.S. EQUITY  
SPECIALIST

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2011 ANNUAL REPORT

## How to buy our funds

### Direct

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

### Through your advisor

The North Growth U.S. Equity Advisor Fund is available through your regular full service broker, fee for service advisor or discount brokerage.

### Registered dealers

Registered dealers with clients interested in purchasing units of the U.S. Equity Advisor Fund can do so through FundSERV under the fund manufacturer code NGM.

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### THE FUTURE BELONGS TO US –

Together through use of Forest Stewardship Council (FSC) certified paper in this brochure, we are taking steps to ensure our forests are protected. This brochure is produced from forests that are responsibly managed according to set environmental standards. Our goal is to support environmentally appropriate, socially beneficial, and economically viable management of the earth's resources. This brochure contains 100% post-consumer fiber.

**QLT, Inc...** is a pharmaceutical company dedicated to the development and commercialization of innovative therapies for the eye. The company is focused on its commercial product *Visudyne* for the treatment of wet AMD (age-related macular degeneration), and the development of drugs to be delivered in its proprietary punctal plug devices.

**Research in Motion, Ltd...** is the designer and manufacturer of the iconic *BlackBerry* smartphone which is in use by over 70 million people around the world.

**Sandvine Corporation...** is focused on protecting and improving the quality of experience on the Internet. The company's award-winning network solutions help network operators better understand network traffic, increase customer satisfaction, mitigate the proliferation of malicious traffic, manage network congestion, and prioritize the delivery of multimedia services while maintaining a high quality of service.

**Saputo, Inc...** is a leading manufacturer of cheese, fluid milk, yogurt, dairy ingredients and snack-cakes. Saputo is the 12th largest dairy processor in the world, the largest in Canada, the third largest in Argentina, among the top three cheese producers in the United States, and the largest snack-cake manufacturer in

Canada. The company's products include brand names such as *Saputo*, *Armstrong*, *Dairyland*, and *Neilson*.

**Sierra Wireless, Inc...** offers industry-leading mobile computing and machine-to-machine communications products and solutions that connect people, devices, and applications over cellular networks.

**TELUS Corporation...** is a leading Canadian telecommunications company that provides wireline, wireless, internet, entertainment, and video services.

**Valeant Pharmaceuticals International, Inc...** is the product of the merger between Biovail Corporation and Valeant Pharmaceuticals International which completed in September 2010. Valeant is a multinational specialty pharmaceutical company that develops, manufactures and markets a broad range of pharmaceutical products primarily in the areas of neurology, dermatology and branded generics.

**WestJet Airlines, Ltd...** is Canada's leading low-cost airline offering scheduled service throughout its growing North American and Caribbean network. The company strives to be the number one choice for travelers by operating a modern fleet of Boeing Next-Generation 737 aircraft with increased legroom and leather seats as well as live seatback television provided by *Bell TV*.

#### Top 10 Holdings (%)

1. Miranda Technologies Inc.	7.76
2. Bombardier Inc., Class B	7.26
3. EXFO Inc.	6.96
4. Celestica Inc.	5.93
5. Valeant Pharmaceuticals Int'l Inc.	5.34
6. WestJet Airlines Ltd.	5.30
7. Sandvine Corporation	4.86
8. Sierra Wireless Inc.	4.73
9. Genum Corporation	4.70
10. Dorel Industries Inc.	4.23

#### Sector Mix (%)

Technology	49.54
Healthcare	11.42
Industrials	11.17
Consumer Products	6.28
Transportation	5.30
Consumer Durables	4.23
Capital Goods	4.19
Communications & Media	2.49
Other Net Assets	5.38

## Our Focus is Long Term Growth

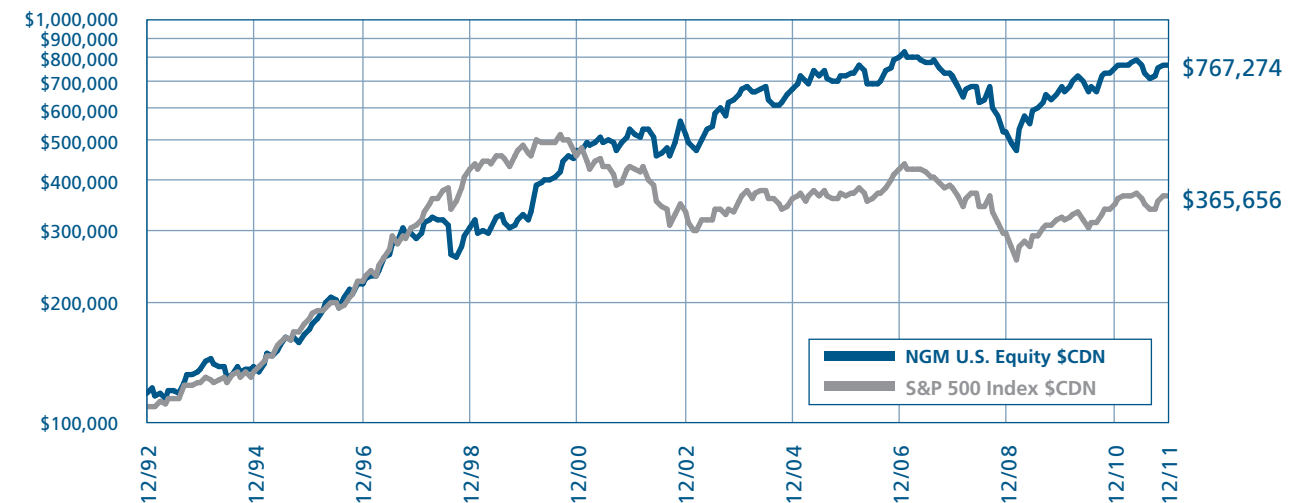
The key to achieving superior long term results is identifying a manager with a superior long term record.

According to globefund.com, the North Growth U.S. Equity Fund is the top U.S. Equity Fund in Canada when comparing 15-year and 10-year results and is among the top ten when looking at 5-year results. This superior long term record exists despite some periods of significant short term volatility and even periods of underperformance. It is not reasonable to expect great results every single year but it is not

unreasonable to expect that some managers, who have a record of superior long term results, will continue to deliver.

The most important factor contributing to our record has been the establishment of, and adherence to, our "growth at a reasonable price" investment philosophy. Another important factor is simply having a well-trained and motivated team of compatible people who practice that philosophy and continually put in our best effort at analysis and decision making.

U.S. Equity Fund Since Inception \$CDN



If you had invested \$100,000 CDN in the U.S. Equity Fund from inception to December 31, 2011, your investment value would be \$ 767,274 —more than double the return of the benchmark S&P 500 over the same time period.

## Letter to Unit Holders

### Dear Unit Holder,

In my 50 year career, I have never experienced a time when investors are as disheartened and pessimistic as they have been over the past year. The poor performance of equity investments since 2000 at the very time when so many investors are reaching retirement age obviously sets the stage for a negative outlook. Over-pessimism always develops at the bottom and into the recovery stage of every market and economic cycle. It is an emotional response based on the human tendency to be most influenced by recent past experience and the fear of uncertainty.

This is the most controversial and difficult year-end message I have ever written. I don't want to downplay the seriousness of the problems that have beset investors in recent years. I realise how threatening the investment results of the U.S. equity markets since the beginning of the 21st century have been to people dependent on pension payments and on their investments.

Most people aged 60 and over do not have enough income and savings to make them feel secure with their retirement plans. This is certainly a contributing factor to the current extreme levels of pessimism. However, the fact remains that most of our long term investors are in much better shape than the average investor and shouldn't be as pessimistic as the general public.

Our job is to provide our clients with the continued above average investment results that we have historically achieved (see p. 5 and 6 for a record of our investment results). This requires sticking to a disciplined investment philosophy and staying objective about company and economic developments even when that goes against emotional moods of the market.

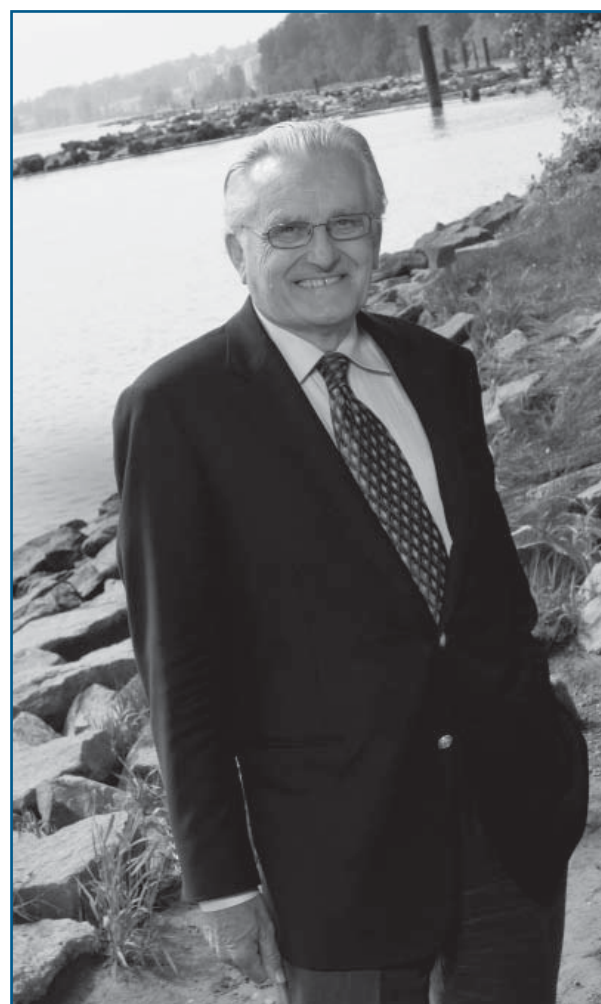
Despite the strong stock market recoveries from the devastating 2008 downturn, the market as measured by the S&P 500 since the beginning of 2000 is still down. Not surprisingly, investors are reacting to this with overwhelming pessimism and an almost total consensus that the next decade will see a continuation of further poor investment results. There is no historical precedent for another decade of market stagnation.

The slow economic recovery from the 2008 banking crisis and resulting market collapse was exacerbated in 2011 by events such as the Japanese tsunami, the

Arab Spring and the European sovereign debt crisis. The dysfunction of legislatures in both the U.S. and Europe in addressing the problems of budget deficits and debt levels created a crisis of confidence and an equity market selling climax in mid-summer. The media coverage of all this turmoil has been coloured by a relentlessly negative bias which has fuelled the uncertainty and anxiety of investors.

The economic commentary and outlook for 2012 later in this report reveals how much better the actual economic results for 2011 have been relative to the prevailing concern about the U.S. sliding into a double-dip recession. There has been an amazing emotional disconnect to reality.

All of these developments, along with confidence shattering market volatility all contributed to the



science, remote sensing and military satellites. Through its subsidiary, *exactEarth*, the company is developing a global space-based Automatic Identification System for marine traffic for government and commercial purposes.

**Day4 Energy, Inc...** is a Vancouver-based manufacturer of solar modules whose patented Day4® Electrode technology improves the performance and life of the modules without increasing cost. The solar industry has seen great turmoil and as a result, Day4 is in discussions with Ever Energy of Taiwan to explore a possible merger.

**Dorel Industries, Inc...** is a global manufacturer of consumer products. The company operates in three business segments: Juvenile, Home Furnishings, and Recreational/Leisure. Some of Dorel's brand names are *Cosco, Safety 1st, Maxi-Cosy, Ameriwood, Ridgewood, Cannondale, Sugoi, Schwinn, GT Bicycle,* and *Mongoose*.

**EXFO, Inc...** is a recognized test and measurement expert in the global telecommunications industry. The company offers a full suite of test solutions and monitoring systems to network service providers, cable TV operators, telecom system vendors, and component manufacturers in approximately 70 countries.

**Gennum Corporation...** designs innovative semiconductor solutions and intellectual property (IP) cores for the world's most advanced consumer connectivity, enterprise, video broadcast, and data communications products.

**GSI Group, Inc...** supplies precision motion products, lasers, and laser systems that are used to boost efficiency and productivity for manufacturers in the global medical, semiconductor, electronics, and industrial markets.

**IMRIS, Inc...** is an emerging provider of an optimized fully integrated image guided therapy environment that delivers timely information to clinicians for use during surgical or interventional procedures. The *VISIUS Surgical Theatre* incorporates magnetic resonance imaging, CT and fluoroscopy into multi-purpose surgical suites to provide truly intra-operative imaging for specific medical applications. Their products are sold globally to hospitals that deliver clinical services to patients in the neurosurgical, interventional neurovascular and cardiovascular markets.

"Sandvine has been a major innovator of intelligent broadband solutions since the industry began. We strive to offer service providers award-winning tools for network business intelligence and data insight; traffic management solutions that both optimize network resources and the subscriber experience; and lastly, provide the opportunity for providers to implement service creation programs."

*Sandvine Corporation,*

Nov 17, 2011 Press Release, Dave Caputo, CEO

**Jean Coutu Group (PJC), Inc...** operates a network of 395 franchised drugstores in Canada located in Quebec, New Brunswick and Ontario and employs more than 18,000 people. The company holds a significant interest in Rite Aid Corporation, a leading U.S. drugstore chain with over 4,700 drugstores in 31 states and the District of Columbia.

**MacDonald, Dettwiler & Associates, Ltd...** designed and built the *Canadarm* and is a world leader in information and technology. Its Information Systems group provides mission critical information systems for robotics, defense, and satellites for governments and businesses worldwide.

**Miranda Technologies, Inc...** develops, manufactures, and markets high-performance hardware and software for the television broadcast industry. Its solutions are purchased by content creators, broadcasters, specialty channels, and television service providers to enable and enhance the transition to a complex multi-channel digital and HD broadcast environment.

### Top 10 Holdings (%)

1. Apple Inc.	10.69
2. Cisco Systems Inc.	9.05
3. Intel Corporation	6.46
4. Bristol-Myers Squibb Company	5.79
5. Pier 1 Imports Inc.	5.07
6. Microsoft Corporation	3.96
7. Texas Instruments Inc.	3.74
8. Pfizer Inc.	3.48
9. Citrix Systems Inc.	3.39
10. St. Jude Medical Inc.	3.34

### Sector Mix (%)

Technology	49.80
Healthcare	21.29
Retail	10.13
Capital Goods	8.37
Consumer Cyclical	4.65
Consumer Durables	3.56
Financial	0.97
Energy	0.55
Other Net Assets	0.68

## North Growth Canadian Equity Fund Portfolio

AS OF DECEMBER 31, 2011

**ATS Automation Tooling Systems, Inc...** is a world-leading industrial automation company dedicated to designing and manufacturing advanced factory automation systems, custom or standard automation equipment, turn-key assembly machinery, as well as high-volume precision components and sub-assemblies. ATS provides services to companies in industries such as energy, medical, consumer, automotive, computer, and electrical. ATS is in the process of exiting its solar cell and module manufacturing business, Photowatt.

**Azure Dynamics Corporation...** is a world leader in the development and production of hybrid electric and electric components and powertrain systems for commercial vehicles. Azure is strategically targeting the commercial delivery vehicle and shuttle bus markets and is currently working internationally with various partners and customers including Ford, Johnson Controls-Saft, Purolator, Federal Express, and the U.S. Postal Service.

**Ballard Power Systems, Inc...** is recognized as the world leader in the design, development, and manufacture of zero-emission proton exchange membrane (PEM)

fuel cells for automobiles, materials handling vehicles such as forklifts, and stationary power generation.

**Bombardier, Inc...** is a world-leading manufacturer of innovative transportation solutions such as regional jets, business jets, and rail transportation equipment.

**CAE, Inc...** is a world leader in providing simulation and modelling technologies and integrated training solutions for the civil aviation industry and defense forces around the globe.

**Celestica, Inc...** is a global electronics manufacturing services company whose solutions span the entire product lifecycle – from design to supply chain management and aftermarket support. The company has a diverse customer base from industries such as enterprise, communications, consumer, aerospace and defense, industrial, alternative energy, and healthcare.

**COM DEV International, Ltd...** is a leading global designer and manufacturer of space hardware subsystems. With facilities in Canada, the United Kingdom and the United States, the company manufactures advanced products and subsystems that are sold to major satellite prime contractors for use in communications, space

growing pessimistic consensus. Despite this, the S&P 500 has recovered 14.4% from the selling climax that spanned August to October 3rd. As we mentioned in our monthly reports, the companies the U.S. Fund holds have continued to show strong operating results and there has been a continuing flow of improved economic measures which have generally unnoticed due to the almost daily dramas surrounding the European sovereign debt problems.

I don't like being in the position of dismissing the strongly held and in a sense understandable position of worried investors, but I cannot accept the current negative consensus. In our view, U.S. equities are positioned to enjoy unexpected strength.

Now, after an extended great recession and over a decade of S&P 500 results that are worse than the 1930s and the first years of the Second World War, we are in a bull market that could be the beginning of a whole new era of secular growth based on sustainable business practices and addressing government spending priorities, tax policies and deficit levels.

I am a bit embarrassed to have written so strongly, but the current market is the type of environment

when successful investors act, and I feel comfortable stressing my long held belief that equities are the best investment alternative. This is the time that any investor who is able to invest should be sure that they have their personal investment portfolio at the highest equity limit. All this represents a sweet spot for our 'growth at a reasonable price' investment philosophy.

After we have had strong results for a number of years, my views will have much wider acceptance, and there will be people with unrealistically high expectations wanting to buy the Fund. That isn't the time I would feel comfortable coming out strongly in favour of equities, but there you have it. I'm bullish for the next year, and for the long term.

Yours truly,



**Rudy North**  
Senior Portfolio Advisor, President & CEO



## Performance Results

### 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, 2011

US Equities	1 yr	3 yrs	5 yrs	10 yrs	15 yrs	Since Inception*
NGM US Equity Fund \$CDN	1.7%	13.3%	-1.0%	3.8%	8.6%	11.2%
S&P 500 \$CDN	4.4%	7.5%	-2.9%	-1.6%	3.4%	7.0%
NGM US Equity Fund \$US	-0.5%	20.3%	1.7%	8.5%	10.8%	12.4%
S&P 500 \$US	2.1%	14.1%	-0.3%	2.9%	5.5%	8.1%
S&P 400 Mid Cap \$US	-1.7%	19.6%	3.3%	7.0%	10.0%	11.5%
S&P 600 Small Cap \$US	1.0%	17.0%	1.9%	7.1%	8.3%	10.6%
NASDAQ Composite \$US†	-0.8%	19.5%	2.5%	3.7%	5.5%	8.2%
Canadian Equities	1 yr	3 yrs	5 yrs	10 yrs	15 yrs	Since Inception**
NGM CDN Equity Fund \$CDN	-6.0%	22.3%	-2.8%	1.4%	-	2.6%
S&P/TSX \$CDN	-8.7%	13.2%	1.3%	7.0%	-	2.9%

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

\*\* NGM Canadian Equity Fund Inception September 1, 2000

Source for Index data: Bloomberg

† Return Since Inception and for the 15 year period for the NASDAQ is simple price appreciation as Total Return data is not available on Bloomberg

**Precision Castparts Corporation...** is a manufacturer of complex metal components and products and provides high quality investment castings, forgings, fasteners and fastener systems for a wide variety of industrial, power generation and aerospace applications.

**Safeway, Inc...** is one of the largest North American food and drug retailers with over 1,700 stores throughout the U.S. and Canada. Stores operate under the *Safeway*, *Dominick's*, *Vons*, *Randall's*, *Tom Thumb*, *Carrs*, and *Genuardi* names.

**Savient Pharmaceuticals, Inc...** is a specialty biopharmaceutical company focussed on the commercialization of its FDA approved drug, *KRYSTEXXA*. The drug targets chronic gout patients who do not respond to conventional therapy and often exhibit severe symptoms, frequent flares and multiple tophi (deposits of crystallized uric acid in the joints). *KRYSTEXXA* is currently the only available FDA-approved drug for the treatment of this debilitating condition.

**St. Jude Medical, Inc...** develops, manufactures and distributes medical devices with an emphasis on cardiovascular products and services. St. Jude has four major focus areas that include cardiac rhythm management, atrial fibrillation, cardiovascular and neuromodulation. The company's products are sold in more than 100 countries and include implantable cardioverter defibrillators (ICDs), cardiac resynchronization therapy (CRT) devices, pacemakers, electrophysiology catheters, mapping and visualization systems, vascular closure devices, heart valve replacement and repair products, and neurostimulation devices.

**Texas Instruments, Inc...** designs and makes semiconductors that are in turn sold to electronics designers and manufacturers worldwide. Its largest segment, Analog, produces analog chips that serve an array of industries and can be found in products such as portable ultrasound equipment, set-top boxes, robotics and LED streetlights. Its recent acquisition of National Semiconductor solidifies its position in analog semiconductors. Its Embedded Processing segment includes digital signal processors (DSPs) and microcontrollers while its Wireless segment focuses on connectivity products and OMAP applications

processors – all of which offer significant growth opportunities for the company. The company also makes calculators, DLP products and custom ASIC products.

**Varian Medical Systems, Inc...** is the world's leading manufacturer of medical devices and software for treating cancer and other medical conditions with radiotherapy, radiosurgery, proton therapy and brachytherapy. The company supplies informatics software for managing comprehensive cancer clinics, radiotherapy centers and medical oncology practices. Varian is also a supplier of tubes and digital detectors for X-ray imaging in medical, scientific and industrial applications and also supplies X-ray imaging products for cargo screening and industrial inspection.

**Wal-Mart Stores, Inc...** is the largest retailer in the world and offers a broad assortment of merchandise and services that range from consumables, apparel, electronics, housewares, hardware, small appliances stationary, shoes, toys, and jewellery to pharmaceuticals and photo processing services at every day low prices. The company operates various retail formats around the world which include discount stores and supercenters (*Wal-Mart*), warehouse clubs (*Sam's Club*), and supermarkets (*Neighborhood Markets*).

**WellPoint, Inc...** provides health care benefits to approximately 34.4 million medical members through its licensed *Blue Cross* or *Blue Cross Blue Shield* operations in 14 states and through *Unicare*, for its non-Blue branded operations, in other states. The company offers a broad portfolio of integrated health care plans and services, along with a wide range of specialty products such as life and disability insurance benefits, dental, vision, behavioral health benefit services, and long-term care insurance and flexible spending accounts. The company is active in the commercial market as well as the Medicare, Medicaid, and Federal Employee programs.

**Zimmer Holdings, Inc...** designs, manufactures and markets orthopaedic reconstructive, spinal and trauma devices, dental implants and related surgical products. Its products are sold in more than 100 countries and are sold directly to health care institutions, distributors, and dental facilities.

denim, handbags, watches, footwear and other related consumer products for men, women and children. Its products are sold through retail, wholesale, e-commerce and licensing distribution channels. In retail, its store concepts include *GUESS?*, *GUESS by MARCIANO*, *G by GUESS* and *Guess? Accessories*.

**Herman Miller, Inc...** designs, manufactures, and distributes interior furnishings and provides related services primarily for workplace environments. Its products are mainly used in corporate offices, healthcare facilities, educational institutions, and residential settings. The company markets its products primarily through a dealer base of independent businesses in the U.S. and various countries around the world.

**Intel Corporation...** is the world's largest semiconductor chip maker whose major products include: microprocessors and chipsets for desktop PCs, notebooks, netbooks and servers; NAND flash memory and embedded processors for wireless handsets; and other components for wireline communications applications.

**Jacobs Engineering Group...** is one of the world's largest and most diverse engineering and construction companies. The company serves customers in the oil and gas, refining, chemicals, mining, infrastructure, aerospace and defense, automotive, industrial, consumer technology, environmental, buildings, government and pharmaceutical/biotech end markets. The company's success has revolved around establishing and maintaining long-term relationships with its clients to gain market share.

**Johnson Controls, Inc...** is a global leader in automotive interior systems, automotive batteries and commercial building management systems. The company's automotive interior systems division primarily sells seating and overhead systems. While its batteries division primarily sells lead-acid automotive batteries to both original equipment manufacturers and the aftermarket industry, the company also offers other technologies, such as lithium-ion batteries to power hybrid vehicles. Its division focused on building management systems sells a variety of products and services such as heating, ventilating and air condition (HVAC) systems, controls and security solutions.

**Micron, Inc...** is one of the world's leading

semiconductor companies, specializing in memory products. The company's DRAM, NAND, and NOR Flash memory are used in computing, networking, server, mobile, embedded, consumer, automotive, and industrial applications.

**Microsoft Corporation...** is the largest software company in the world; it develops, licenses, and sells a broad range of software, hardware and services. The company has a dominant franchise in desktop software through its *Windows* operating system and *Office* productivity suite. Its line of software products has expanded into related areas such as servers, the Internet, home entertainment, and embedded and mobile devices. Microsoft also makes the highly successful *Xbox* game console.

**Nike, Inc...** is the world's lead designer, marketer, and distributor of authentic athletic footwear, apparel, equipment, and accessories. Wholly-owned subsidiaries include *Converse* (athletic footwear, apparel and accessories), *Cole Haan* (luxury shoes, handbags, accessories and coats), *Hurley International LLC* (action sports, youth lifestyle footwear and apparel) and *Umbro* (athletic and casual footwear, apparel and equipment primarily for the sport of soccer). The company sells its products through various retail accounts, company-owned retail stores, and independent distributors and licensees.

**Pfizer, Inc...** is one of the world's largest research-based pharmaceutical companies. Its global healthcare portfolio includes human and animal biologic and small molecule medicines and vaccines, as well as nutritional and consumer health care products. Products within its Biopharmaceutical segment include those that prevent and treat cardiovascular and metabolic diseases, central nervous system disorders, arthritis and pain, infectious diseases, urogenital conditions, cancer, eye disease and endocrine disorders, among others. During the past year, Pfizer sold its Capsugel business and is currently exploring strategic alternatives for its animal health and nutrition business.

**Pier 1 Imports, Inc...** is a specialty retailer of imported decorative home furnishings, dining and kitchen goods, bath and bedding accessories, and gifts. The company currently operates more than 1,000 stores in North America.

## Annual Rates of Return

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>US Equities</b>										
NGM US Equity Fund \$CDN	1.7	11.6	28.2	-26.7	-10.9	12.7	6.5	3.5	25.5	-2.0
S&P 500 \$CDN	4.4	8.9	9.1	-22.6	-10.3	16.0	1.5	2.8	5.8	-22.8
NGM US Equity Fund \$US	-0.5	17.9	48.5	-40.4	4.7	12.5	10.0	11.6	52.7	-1.1
S&P 500 \$US	2.1	15.1	26.5	-37.0	5.5	15.8	4.9	10.9	28.7	-22.1
S&P 400 Mid Cap \$US	-1.7	26.6	37.4	-36.2	8.0	10.3	12.6	16.5	35.6	-14.5
S&P 600 Small Cap \$US	1.0	26.3	25.6	-31.1	-0.3	15.1	7.7	22.7	38.8	-14.6
NASDAQ Composite \$US*	-0.8	18.2	45.4	-40.0	10.7	10.4	2.1	9.2	50.8	-31.3
<b>Canadian Equities</b>										
NGM CDN Equity Fund \$CDN										
S&P/TSX \$CDN	-8.7	17.6	35.1	-33.0	9.8	17.3	24.1	14.5	26.7	-12.4

Source: Bloomberg

Unit Price (US Fund): December 31, 2011 \$24.07 CDN  
\$23.67 US

Unit Price (Canadian Fund): December 31, 2011 \$10.91 CDN

## 2011 Performance Review The North Growth Family of Funds

### NGM U.S. Equity Fund

2011 was an incredibly volatile year for the U.S. equity markets. Aside from dips in March and in June, equities generally recorded gains from January until late July when the markets started to decline steeply. Subsequent to the sell-off from August until early October, U.S. equities rallied during the final months of the year to end 2011 roughly at the same level as where they began. The S&P 500 Index gained 2.1% in 2011 followed by the S&P 600 SmallCap which was up 1.0%. On the other hand, the technology-centric

NASDAQ Composite and S&P 400 MidCap declined 0.8% and 1.7% respectively.

In 2011, the North Growth U.S. Equity Fund declined 0.5%, lagging the S&P 500 by 2.6% and the S&P 600 by 1.5%, while outperforming the NASDAQ and S&P 400 Indices by 0.3% and 1.2% respectively. As the Canadian dollar weakened against its U.S. counterpart during the year, the Fund gained 1.7% in Canadian dollars versus the S&P 500 Index which was up 4.4%.

### NGM Canadian Equity Fund

The Canadian Equity Fund had a bittersweet year in 2011. While the Fund outperformed the S&P/TSX Composite Index for the third consecutive year, posting a decline of ■■■■ compared to a loss of 8.7%, the Fund was up as much as ■■■■ in July when the Index slightly up. The following correction was swift and brutal and the Fund's performance was negative in less than a month and our lead over the Index rapidly contracted. This negative performance for the year occurred despite a significant contribution from

the Fund's largest holding, Zarlink, which appreciated significantly through the year and was subsequently acquired at a sizeable premium. We continue to be encouraged with the portfolio as many holdings were excessively punished during the correction and we expect strong recoveries. We are also heartened by having no exposure to commodities for which many cracks are appearing.

### NGM Canadian Money Market Fund

The Money Market Fund's current yield at the end of 2011 was 0.83%, essentially equal to the 0.82% yield at the beginning of the year. The Bank of Canada's target for the overnight rate began and ended the year at 1.00% with no variation during 2011—in other words, the central bank neither raised nor lowered the overnight rate at any of its announcement dates during the year.

Due to the short average maturities within the Money Market Fund of 30 days or less, the direction of the

Fund's current yield corresponds closely with the direction in Canadian short term interest rates. In 2011, the Fund returned 0.82%, 0.09% below the 0.91% return for 30-day Treasury Bills. Over the past five years, the average annual return for the Fund was 1.75%, 0.05% or 5 basis points ahead of the 1.70% average annual return for 30-day Treasury Bills. The Fund continues to invest in a well-diversified portfolio of Canadian money market securities with an emphasis on high credit ratings.

for its institutional clients, services for debt and equity securities, investment banking and treasuries. The Citi Holdings segment consists of businesses and assets that are not core to the company's long term strategy and are being managed to optimize their value over time.

**Citrix Systems, Inc...** is a leading supplier of software and services that enable enterprise applications to be managed and delivered securely through its virtual computing infrastructure on demand, without regard to location, network connection, or device. The company markets and licenses its products primarily to enterprise customers.

**DSP Group, Inc...** is a fabless semiconductor company that provides a broad portfolio of chipset solutions that integrate DECT, Wi-Fi, PTSN and VoIP/CoIP technologies with application processors. These products compete in the home telephony market and enable converged voice, audio, video and data connectivity across diverse consumer products such as cordless and VoIP phones, home gateways and infotainment centers.

**Electronic Arts, Inc...** is a leading global interactive entertainment software company. The company develops, publishes and distributes video game software and content for various video game consoles, personal computers, handheld gaming devices and mobile devices. Some of its well-known franchises include: *The Sims*, *Madden NFL*, *Need for Speed*, *Battlefield*, and *FIFA*.

**Ethan Allen Interiors, Inc...** is a leading manufacturer and retailer of stylish, high-quality home furnishings and accessories. Through a global retail network of approximately 300 design centers, the company offers a range of home decorating and design solutions through in-house interior decorators. Its products are also sold through the wholesale channel, which includes sales to its retail segment and their independent retailers.

**First Solar, Inc...** designs and manufactures solar modules to convert sunlight into electricity using a proprietary thin film semiconductor technology. It uses cadmium telluride as a semiconductor material, which contrasts with its peers that use traditional crystalline silicon. First Solar is one of the largest photovoltaic (PV) solar module manufacturers globally and is the

**“Now that we have returned to pre-recession revenue levels it is quite evident that we are accomplishing our stated objective of coming out of the recession a much stronger company than we were before hand.”**

*Flow International*

Dec. 8, 2011, Second Quarter earnings conference call, Charlie Brown, President and CEO

largest thin-film PV solar module manufacturer. The company has manufacturing sites in North America, Europe and Asia.

**Flow International Corporation...** develops and manufactures waterjet cutting and cleaning tools. Its products, which include ultrahigh-pressure water pumps that generate pressures from 40,000 to over 94,000 pounds per square inch (PSI), are sold in over 45 countries and are used by various industries including aerospace, metalworking, automotive, stone and tile, job shop and industrial surface preparation and cleaning.

**General Electric Company...** is one of the largest and most diversified technology and financial services companies in the world. The company's products and services range from aircraft engines, power generation, water processing and security technology to medical imaging, and business and consumer financing.

**GT Advanced Technologies, Inc...** is an equipment supplier to the solar and light emitting diode (LED) industries. Its business is organized in three main divisions: its photovoltaic (PV) division supplies ingot furnaces and pullers to polysilicon manufacturers, its polysilicon division supplies reactors to polysilicon manufacturers and its sapphire division supplies sapphire crystal growth furnaces to sapphire ingot manufacturers in the LED industry.

**Guess?, Inc...** designs, markets, distributes and licenses a lifestyle collection of contemporary apparel,



## North Growth U.S. Equity Fund Portfolio

AS OF DECEMBER 31, 2011

**Adobe Systems, Inc...** is a leading software company that offers a line of creative, business, web and mobile software and services targeted to consumers, creative professionals, developers, enterprises and original equipment manufacturers (OEMs). The company's products and services allow users to create, manage, deliver and optimize content across multiple operating systems, devices and media. Several of its key products include *Photoshop*, *Creative Suite*, *Dreamweaver*, *LiveCycle*, *Acrobat*, and *Flash*. The company recently announced that it is aligning its business around two growing categories, Digital Media and Digital Marketing.

**American Eagle Outfitters, Inc...** is a leading lifestyle retailer that designs, markets, and sells its own brand of casual clothing targeted at 15 to 25 year olds. Its collection includes modern basics like jeans, cargo pants, and graphic t-shirts as well as accessories, outerwear, and footwear. The company's newer store concepts include *aerie*, which offers dormwear and intimates collections for the AE girl and *77kids*, which offers clothing and accessories for kids aged 2 to 10.

**Apple, Inc...** is a leading designer, manufacturer, and marketer of personal computers and related products, portable digital music and video players, and mobile communication devices. The company's products and services include the *iPhone*, *iPad*, *Mac*, *iPod*, *Apple TV*, the *iOS* and *Mac OS* operating systems, *iCloud* and a variety of other accessory service and product offerings. The company's products are sold through its retail stores, online stores, direct sales force and third party wholesalers, cellular network carriers, retailers and value added resellers.

**Applied Materials, Inc...** is the world's largest supplier of products and services to the global semiconductor, flat panel display, and solar photovoltaic industries. In its Silicon Systems Group, the company provides manufacturing equipment that performs most of the steps in the chip fabrication process. In its Display segment, it provides equipment that makes liquid crystal displays (LCDs) commonly found in notebook computers, desktop monitors and televisions. Its Energy and Environmental Solutions segment supplies solutions to produce solar photovoltaic panels.

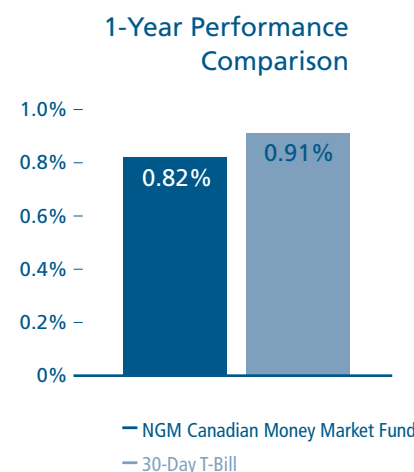
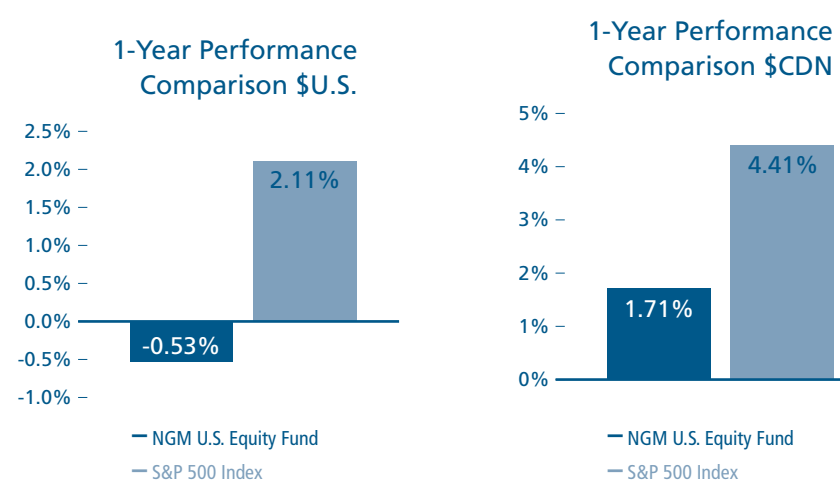
**Bristol-Myers Squibb Company...** is a global biopharmaceutical company. Its prescription drugs, which cover key areas in cardiovascular, virology, oncology, immunoscience and psychiatric disorders, include: *Plavix* (for heart attacks and strokes), *Baraclude* (for hepatitis B), *Reyataz* (for HIV), *Sustiva* (for HIV), *Orencia* (for rheumatoid arthritis), *Sprycel* (for cancer), *Yervoy* (for melanoma), *Ixempra* (for breast cancer), *Avapro* (for hypertension), *Abilify* (for schizophrenia and bipolar disorders), *Onglyza* (for diabetes), and *Eribitux* (for colorectal cancer).

**Cerner Corporation...** designs, develops, markets, installs, and supports information technology and content solutions for healthcare organizations and consumers. These solutions, which can be implemented as stand-alone, combined or enterprise-wide systems, are designed to supply the appropriate health information and knowledge to providers on a real-time basis. Cerner is among the largest healthcare information technology companies in the United States.

**Cheesecake Factory, Inc...** is a full-service dining concept that offers an extensive evolving menu of more than 200 menu items in an upscale, high-energy casual setting. Its second concept, *Grand Lux Café*, is an upscale, casual dining restaurant that offers unique American and international cuisine selections in an elegant but relaxed atmosphere. The company also operates *RockSugar Pan Asian Kitchen* and two bakery production facilities that produce over 40 varieties of cheesecakes and other baked products for its restaurants and other foodservice operators, retailers, and warehouse clubs.

**Cisco Systems, Inc...** is a leading provider of networking equipment and services. The company's broad portfolio of products consist of its core routers and switches as well as solutions in advanced technologies which range from home networking and video systems to security and unified communications. Cisco sells its products to a wide range of customers, including large and small businesses, internet service providers, public sector entities and governments as well as consumers.

**Citigroup, Inc...** is a diversified financial services company with operations across the globe. It operates with two segments: Citicorp and Citi Holdings. Citicorp provides consumers services such as retail banking, local commercial banking, and Citi-branded credit cards and,



## North Growth U.S. Equity Advisor Fund

The North Growth U.S. Equity Advisor Fund is North Growth's only fund available to the general public. Launched in 2009, it is currently available in all provinces but Quebec, Newfoundland and the Territories.

The Fund closely mirrors our U.S. Equity Fund and is appropriate for Canadian investors with a moderate tolerance for risk who seek diversification outside of Canada and have a long term investment horizon of at least five years.

Available exclusively through registered mutual fund dealers in Canada, this low fee Fund has two series:

Series F units have an all inclusive 1.20% MER (management expense ratio) and no trailing commission, and can be purchased through fee for service advisors and brokers. Series D units of the Fund have a 1.70% MER which includes the 1.20% management fee and a 0.50% trailer fee.

The minimum initial investment requirement for the Fund is \$5,000 CDN and for subsequent purchases is \$1,000 CDN.

## Running Five-Year Results

### 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).

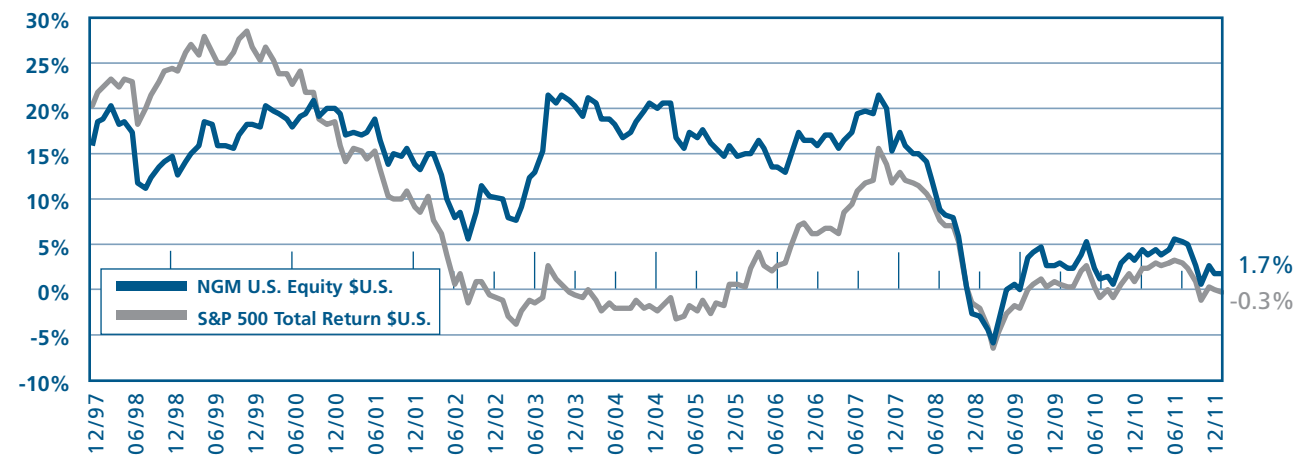
The running five-year average return chart shown below effectively achieves this desired balance as it provides a complete record of the range of performance over all five-year holding periods. Moreover, looking at the complete series of consecutive five-year periods also gives a good insight into the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

monetary policy throughout 2011. The Fed kept the target range for the federal funds rate at 0 to 0.25% and announced on December 13th that it anticipates "exceptionally low levels for the federal funds rate at least through mid-2013". Following the end of its second round of quantitative easing or "QE2" by which the Fed purchased Treasury securities to stimulate economic growth, the Federal Open Market Committee decided in September to extend the average maturity of its holdings of securities. Dubbed "Operation Twist" by economists and the media, the Fed intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. These actions should put downward pressure on longer term interest rates thereby making broader financial conditions more accommodative and spurring investment spending.

With investor sentiment largely negative throughout 2011 while corporate earnings continued to grow, the valuations of U.S. equities became increasingly attractive. The long term prospects of many U.S. corporations continued to improve in spite their trading at historically low valuation levels. Going into 2012, given a moderately growing U.S. economy, accommodative monetary policy, and strong corporate profits, we remain constructive in our outlook for U.S. stocks. We remain convinced that U.S. equities provide compelling investments for long term investors and, particularly with the strength of the Canadian dollar, recommend that Canadians re-evaluate their investment portfolios to ensure they have adequate U.S. exposure.

### 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, 2011 the average annual compound return for the U.S. Equity Fund in U.S. dollars is 1.7%.

## Economic Commentary and Outlook for 2012

Volatility dominated the U.S. equity markets in 2011. Similar to their pattern in 2010, equities performed reasonably well during the first half of the year, sold off sharply in the summer, then rebounded in the final months. During the late-summer and early fall, the combination of ongoing sovereign debt problems in Europe, softer U.S. economic data, and the drawn-out U.S. political wrangling over the country's debt ceiling leading to the subsequent downgrade of the U.S. credit rating by Standard & Poor's badly shook investor confidence. The equity markets registered such steep declines during August and September that from its intraday high on May 2nd to its intraday low on October 4th, the S&P 500 Index fell 21.6%, technically putting the Index in a "bear market". The closing prices on the S&P 500 registered a decline of 19.4% from the Index's high on April 29th to October 3rd, just missing the technical 20% drop. Although U.S. equities did rally spectacularly from October onwards, they ended the year at virtually the same levels as where they began having gone through a wild roller coaster ride in 2011.

The U.S. economy entered the year with solid momentum amid signs of strengthening employment, manufacturing and consumer spending. However, the emergence of headwinds including a spike in oil prices resulting from unrest in the Middle East and disruptions to the global supply chain from the earthquake and tsunami in Japan led to a considerable slowdown in the pace of U.S. economic growth by mid-2011. Based on the final estimates released by the U.S. Department of Commerce, U.S. gross domestic product or GDP grew at an annualized rate of 0.4% in the first quarter, 1.3% in the second quarter, and 1.8% in the third quarter.

Ironically, as the GDP statistics show, the U.S. economy actually strengthened throughout 2011 even while investors became increasingly fearful of a double-dip recession. Notwithstanding the barrage of headlines surrounding Europe's debt troubles and Euro zone economic woes in the latter half of the year, U.S. economic data improved, pointing to a pick-up in activity from the pause in the summer. Based on the Commerce Department's preliminary estimate, the U.S. economy accelerated and expanded around 2.8% in the fourth quarter of 2011. Towards the end of the year, numerous economic indicators strengthened suggesting the U.S. economic expansion is self-sustaining.

Employment increases surprised on the upside in the final months of last year; most recently, in December 2011, payrolls gained by 200,000 and the unemployment rate fell to 8.5%, the lowest in nearly three years. Furthermore, bank loans trended higher from March through the end of the year, reflecting a continued improvement in the health of the U.S. financial sector. Manufacturing growth, which slowed in the summer, picked up towards the end of the year with the December Institute for Supply Management (ISM) manufacturing index rising to the highest reading in six months. Consumer confidence also rebounded in December as the Conference Board's gauge of consumer sentiment climbed to the highest level since April. An improving job market and falling gasoline prices helped auto sales as demand at Ford, General Motors and Chrysler exceeded analysts' forecasts in December.

Despite the variability in the economic data throughout 2011, corporate earnings continued to grow and consistently exceeded expectations. Management commentary across a broad array of industries remained generally upbeat even though corporate executives acknowledged that the volatility in the financial markets and uncertainty over Europe during the latter half of the year had a dampening effect on business confidence. Nonetheless, in spite of a muted macroeconomic environment, earnings for most U.S. companies, excluding those in the financial industry, reached record levels in 2011, having surpassed their pre-recession highs.

As U.S. companies strengthened financially and continued to generate exceptional amounts of cash flow, they increased their dividend payouts and hence the associated dividend yields of the equities increased. A number of the holdings in the North Growth U.S. Equity Fund, many in the technology sector, announced raises to their quarterly dividends during the year. Two prominent examples include Texas Instruments and Microsoft which, in September, boosted their dividends by 31% and 25% respectively. The companies had regularly increased their dividends over the past several years, and given their financial strength, it is likely that the positive trend will continue.

Against a subdued macroeconomic backdrop with low long term inflation expectations, the U.S. Federal Reserve maintained a highly accommodative

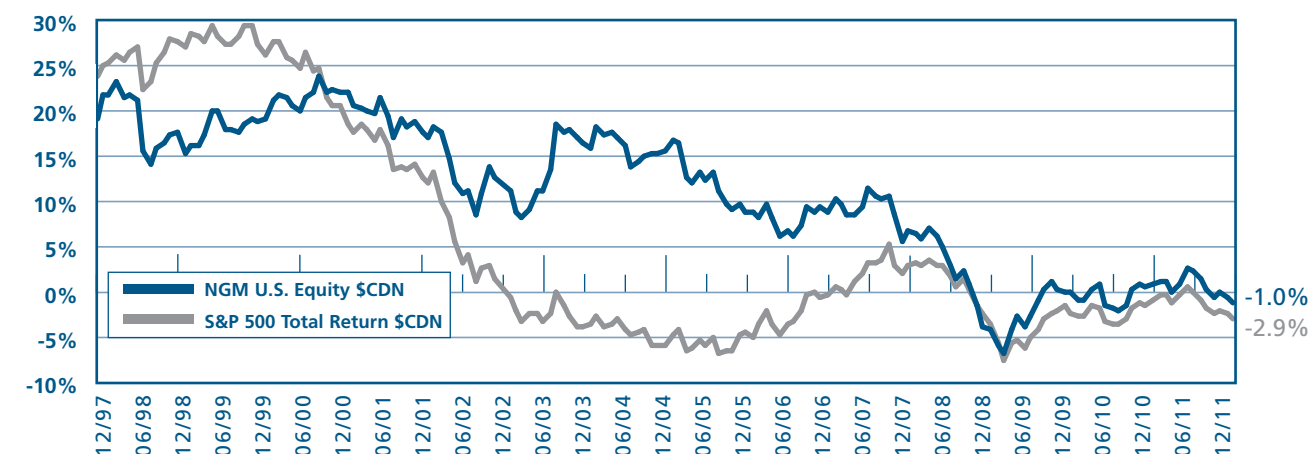
## North Growth U.S. Equity Fund Running Five-Year Results: Expressed in Canadian Dollars

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, 2011, the Fund's five-year average annual return in Canadian dollars was -1.0% versus 1.7% in U.S. dollars.

### Canadian 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, 2011, the average annual compound return for the U.S. Equity Fund in CDN dollars is -1.0%.

## The Canadian Dollar

The Canadian dollar began a recovery against the U.S. dollar nine to ten years ago. During this period, there was a close relationship between the price of oil and the Canadian dollar so much so that it became common practice to call the Canadian dollar a “petro dollar”. This observation is based in part because of the importance of oil to the strength of the Canadian economy and balance of trade but the interdependence of the Canadian and U.S. economies is much more important over the long term than just the price of oil.

At the beginning of 2011, there was close to a consensus agreement that the Canadian dollar would continue to outperform. Because a strong Canadian dollar has been an unwelcome drag on the performance of the U.S. Equity Fund in recent years, we are understandably pleased that this extreme forecast and the more general consensus proved wrong.

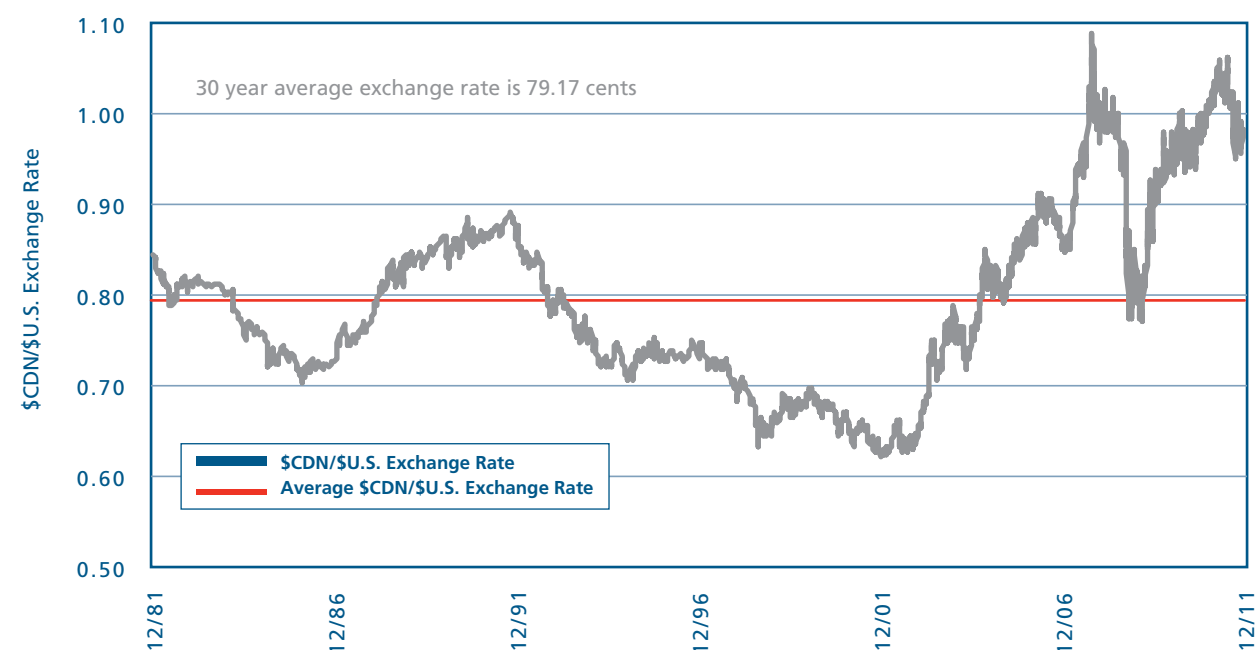
Nevertheless the experience of 2011 was good news for the U.S. Equity Fund and might well turn out to

have been the turning point. After nine to ten years, and in view of the difficulty in forecasting exchange rates, it will probably take a couple of years before the change in direction in 2011 is viewed as a real turning point in the long term direction of the Canadian / U.S. exchange rate and investors expectations come to accept the change.

We do not feel investment decisions should ever be made based on currency alone and unfortunately many investors have done just that and missed out on solid returns from U.S. equities which have outperformed Canadian equities for over two years. As we have stated in this report and numerous times in our monthly reports, U.S. economic activity is strengthening and U.S. equities are very inexpensive. This can create a period of powerful investment performance and this is the fundamental reason for investors to ensure they have adequate exposure. Notwithstanding, the strengthening U.S. dollar is not the reason to own U.S. equities although it would enhance returns if our forecast proves accurate.

### Canadian Dollar to U.S. Dollar 30 Year Exchange Rate History

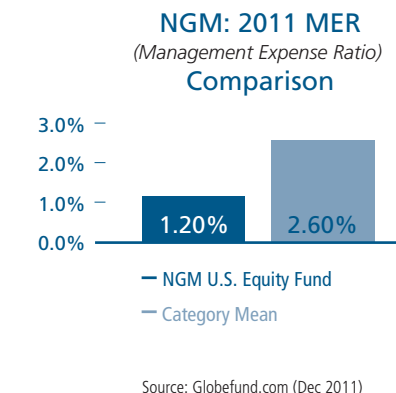
December 31, 1981 to December 31 2011



## Management Fees

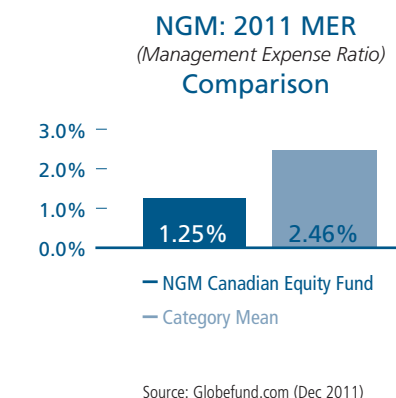
### NGM U.S. Equity Fund

All of North Growth’s Funds have “all-inclusive” management fees. This means that each Fund’s management fee is essentially equivalent to its MER or Management Expense Ratio (management fee plus other fund expenses). In 2011, the MER for the North Growth U.S. Equity Fund was 1.20%. By comparison, the average MER for the U.S. equity fund category was 2.60%, according to Globefund.com.



### NGM Canadian Equity Fund

In 2011, the MER for the North Growth Canadian Equity Fund was 1.25%. According to Globefund.com, the average MER for the Canadian equity fund category was 2.46%.



### NGM Canadian Money Market Fund

The Fund’s 0.25% all-inclusive management fee has historically been among the lowest in Canada and compares favourably to the 0.82% average MER for the Canadian money market fund category in 2011. Due to its competitive fee, the Fund outperformed the average of the Globe and Mail’s universe of Canadian money market funds by 0.40% in 2011.

