



THE GBC NORTH AMERICAN GROWTH FUND INC.

ANNUAL  
REPORT  
1 9 9 6





## INVESTMENT OBJECTIVE:

To achieve superior long term investment returns through investing principally in emerging growth companies in the United States with minor exposure to selected opportunities in Canada and Mexico.

### 1996 HIGHLIGHTS

- U.S. stock markets appreciated strongly for the second year in a row.
- The net asset value of The GBC North American Growth Fund rose 10.8% to a record \$8.08 per share. In sterling terms GBC net asset value remained stable at 344 pence.

# PRESIDENT'S REPORT

1996 proved to be another great year to be invested in U.S. stocks, especially large capitalization companies as the Dow Jones, Standard & Poor and Nasdaq indices all posted 20% plus gains for the second year in a row. Once again the environment was ideal for equities as inflation remained low, interest rates were stable, profits grew strongly and investors poured record amounts of money into equity mutual funds and savings plans.

For GBC, which focuses on smaller capitalization growth companies, the year was satisfactory but hardly inspiring. The net asset value rose to a new yearly record of \$8.08 per share, up 10.8% in the year. In Sterling terms the equivalent figure was 344p per share, the same as in 1995 reflecting the surge in sterling against the dollar.

While it is very clear that 1996 was a difficult comparison year for funds specializing in smaller capitalization companies (for example the Russel 2000 Index, often used as a proxy for this universe of investments, rose only 14.8% in 1996) your managers are reluctant to use this as an excuse for GBC's relatively disappointing results in 1996.

The problem was that in 1996 the portfolio did not have enough winning stocks (59) and held too many losers (49). Only seven investments contributed more than \$1 million in profits to the Fund while there were four that lost \$1 million or more. Contrast this to the previous year when winners outnumbered losers by 66 to 28 and there were twelve investments that contributed more than \$1 million and none that lost that amount. To put it succinctly, it was a poor stock picking year.

Have GBC's managers changed their historically successful investment procedures? No. Pembroke continues to conduct a diligent approach to screening existing holdings and potential new opportunities. The research process, strategy and discipline have not changed. There has been no let up in the work ethic or the standards. The client base remains stable and there was only one change in personnel during the year as Ann Thompson decided to retire after ten years of highly dedicated effort on behalf of GBC. We wish her success and happiness in the future and thank her for ten years of devotion to Pembroke and GBC. The remaining team of five portfolio managers remains very committed, both through significant direct ownership in the Fund, and in a strong belief in the validity of Pembroke's investment management approach, to the long term success of GBC.

After two very strong years of stock market increases it appears unrealistic to expect a repeat performance in 1997. There are fundamental factors that suggest caution, such as relatively high valuations, record high mutual fund inflows and a general enthusiasm for equities that usually develops after a long bull market. It is therefore hard to be optimistic about the prospects for 1997 as far as equity returns are concerned.

Having set out the negative case let me conclude on a positive note. There are many developments in the U.S. that auger well for investors in emerging growth companies. The information explosion, new communications products, medical innovations, new software and the ongoing evolution of the ubiquitous microprocessor are all working to foster change and opportunity at accelerating rates. This is a highly positive environment for funds like GBC that are not too big to participate in these new developments and have the courage and foresight to participate in emerging companies taking a new approach to business. GBC has provided long term investors with a 14.7% compound annual return over the past 25 years. With the opportunities available today, I have difficulty in seeing that the future is not at least as attractive as the past.

Douglas T. Bourke will not be standing for re-election at the Annual Meeting in April because he has reached retirement age for a GBC director. Mr. Bourke has been a director of GBC since 1978 and has made a significant contribution to the success of GBC. His wise counsel and enthusiastic support will be greatly missed by his fellow directors and we thank him most sincerely for his significant contribution.

Peter M. Blaikie, Q.C. has agreed to join the GBC board, subject to shareholder ratification at the Annual Meeting. Mr. Blaikie was a founder and senior partner of the law firm Heenan Blaikie and since 1993 has been President of Unican Security Systems Ltd.

Respectfully submitted



Ian A. Soutar

President & Chief Executive Officer

January 24, 1997



# THE INVESTMENT MANAGEMENT TEAM



FROM LEFT TO RIGHT:  
A. IAN AITKEN, MICHAEL C. SHANNON,  
A. SCOTT TAYLOR, IAN A. SOUTAR, JEFFREY S. D. TORY

PEMBROKE MANAGEMENT is a Montreal, Canada based investment manager specializing in the analysis of and investment in North American growth stocks.

Led by its co-founders, Ian Soutar and Scott Taylor, Pembroke has been the investment manager for The GBC North American Growth Fund and its predecessors since Pembroke's founding in 1968. Over the course of the past several years Pembroke has succeeded in building a team of young portfolio managers who have combined with Ian Soutar and Scott Taylor to form a team with over 100 years of investment experience.

## INVESTMENT PHILOSOPHY

Pembroke maintains a strict focus on investing in North American growth stocks and manages its portfolios normally on a fully invested basis.

Pembroke is attracted to investing in growth companies because of the wealth creation opportunities afforded by this sector. We believe that over a full stock market cycle, the selection of owner entrepreneur managed companies experiencing rapid long term growth in earnings or cash flow "per share" should yield superior investment results. As a result of this philosophy, GBC has exposure to many of the fastest growing industries in North America.

## RESEARCH PROCESS

Each member of the investment team follows growth companies from two or more major industry groups. Over the years, Pembroke has developed an extensive network of contacts which helps in the screening of investment ideas. Management interviews also form an important part of the research mosaic. These meetings help Pembroke analysts form a better understanding of the underlying business dynamics of these companies and the competence of their management groups.

Because a successful investment is usually held in the portfolio over a period of several years, these management interviews and the ongoing monitoring process help separate the winners from the losers. Staying with the winners and weeding out the unsuccessful investments can significantly enhance the long term investment results of a portfolio.

Potential investments are screened using the following criteria:

- A PROVEN MANAGEMENT WITH A HIGH DEGREE OF SHARE OWNERSHIP.
- THE POTENTIAL FOR RAPID LONG TERM GROWTH IN EARNINGS OR CASH FLOW PER SHARE.
- A WELL IDENTIFIED BUSINESS OPPORTUNITY.
- THE ABILITY TO FINANCE RAPID GROWTH WITHOUT EXCESSIVE DILUTION TO EXISTING SHAREHOLDERS.



# 1997: KEEPING THE FAITH

**T**here is a certain amount of reflection which occurs following a year of sub-par investment results which was certainly the case for GBC in 1996. Although we can derive some comfort from the fact that the major U.S. indices were very difficult to beat in 1996, the facts indicate that 1996 was a poor stock picking year for the team at Pembroke Management. One year is probably too short a time period to be overly critical of one's self. However, the constant examination of the investment process is a healthy process.

Investing is like golf in that it is important to get in a groove and try to stay with it. It is possible that in 1996 we were slightly out of our groove and out of rhythm with the U.S. growth stock market which was heavily influenced by the success of relatively few large, high profile growth companies which have attained near "cult" status on Wall Street. That being said, there were many funds with orientations similar to ours where the results were more in line with the market averages. Our end of year review has caused us to reaffirm several core principles which will aid and abet our growth stock investing.

## 1. BE EARLY:

Increased competition and advances in information technology have combined to cause successful companies to achieve stock market recognition very early in their life cycle, resulting in very high valuations for relatively immature companies. There is a clear reward for early identification of rapid growth companies.

## 2. DETERMINE VALUE ADDED:

In a hyper-competitive environment, each investor has to know his/her value added with respect to any particular investment. Sometimes it is as simple as lengthening the investment time horizon. Without some special insight or knowledge, it is difficult to outperform the market.

## 3. FIND A REASONABLE ENTRY POINT:

The valuation at the initial investment has to be reasonable in relation to the scope of the business opportunity. In cases where the starting valuation is too high, the ultimate return is reduced when the reality of an investment does not meet original expectations.

## 4. HAVE PATIENCE:

In over-heated markets, there is a tendency to confuse stock price action with success or failure. As long as the fundamental thesis for a particular investment is sound then having patience is a key to success.

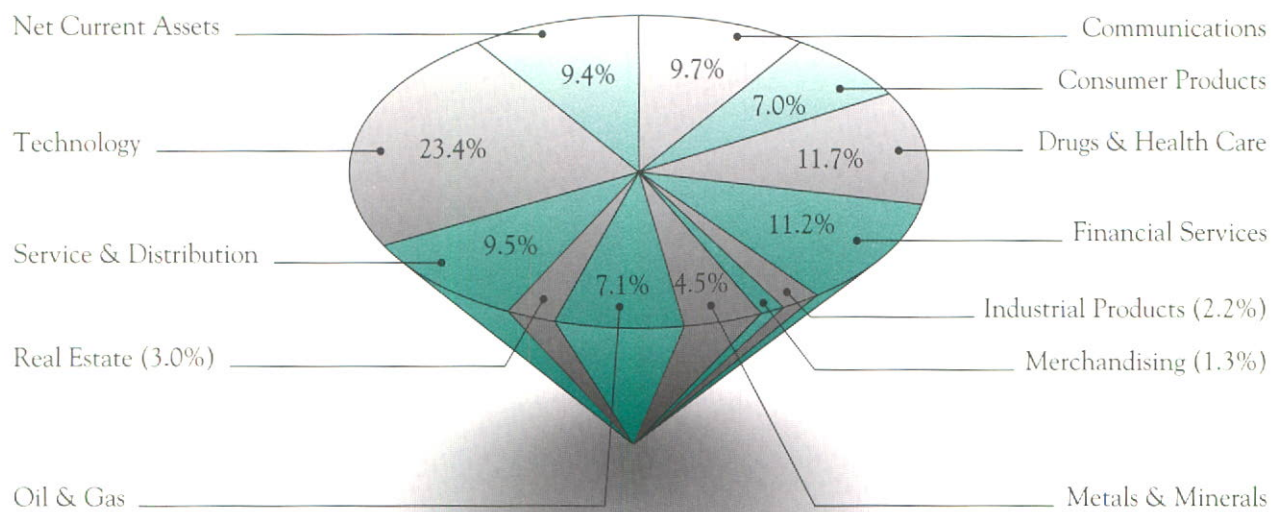
## 5. KEEP THE WINNERS/SELL THE LOSERS:

Because capital is scarce, investments with poor fundamentals should be sold quickly. On the other hand, the winners should be left to run, although one must be aware that good companies' shares can get very overvalued in the short term. This "winners curse" should lead to a certain amount of trading around core positions when valuations are stretched or subdued.

Guided by these principles and the criteria discussed in our section on research process, the team at Pembroke will seek to improve the winners to losers ratio in 1997. Although the overall markets may prove less friendly this year, the poor relative performance of smaller companies in 1996 has created reasonably valued investment opportunities and the boom in initial primary offerings in 1995 and 1996 has also created a huge source of newly minted public companies for Pembroke to examine. The rate of change in these industries is accelerating and in some sectors, notably the technology, communications and health care industries, the scope of the new opportunities is expanding because of this change.

Pembroke Management Limited  
January 1997

# DISTRIBUTION OF ASSETS BY SECTOR



## PEER GROUP COMPARISON (AVERAGE ANNUAL COMPOUND RETURN)

	1 yr	2 yr	3 yr	5 yr	10 yr
GBC N.A. Fund	10.84	18.75	10.61	16.72	11.75
Median of all U.S. equity funds	17.45	21.32	14.47	13.66	10.78
Number of funds in survey	96	83	66	45	29
Rank	76	53	55	12	12
Quartile	4	3	4	2	2

\*Peer Group Index: S & P 500 Composite Index (Expressed in Cdn dollars)

Source: Globe Information Services (As at December 31, 1996)



# 10 YEAR FINANCIAL SUMMARY

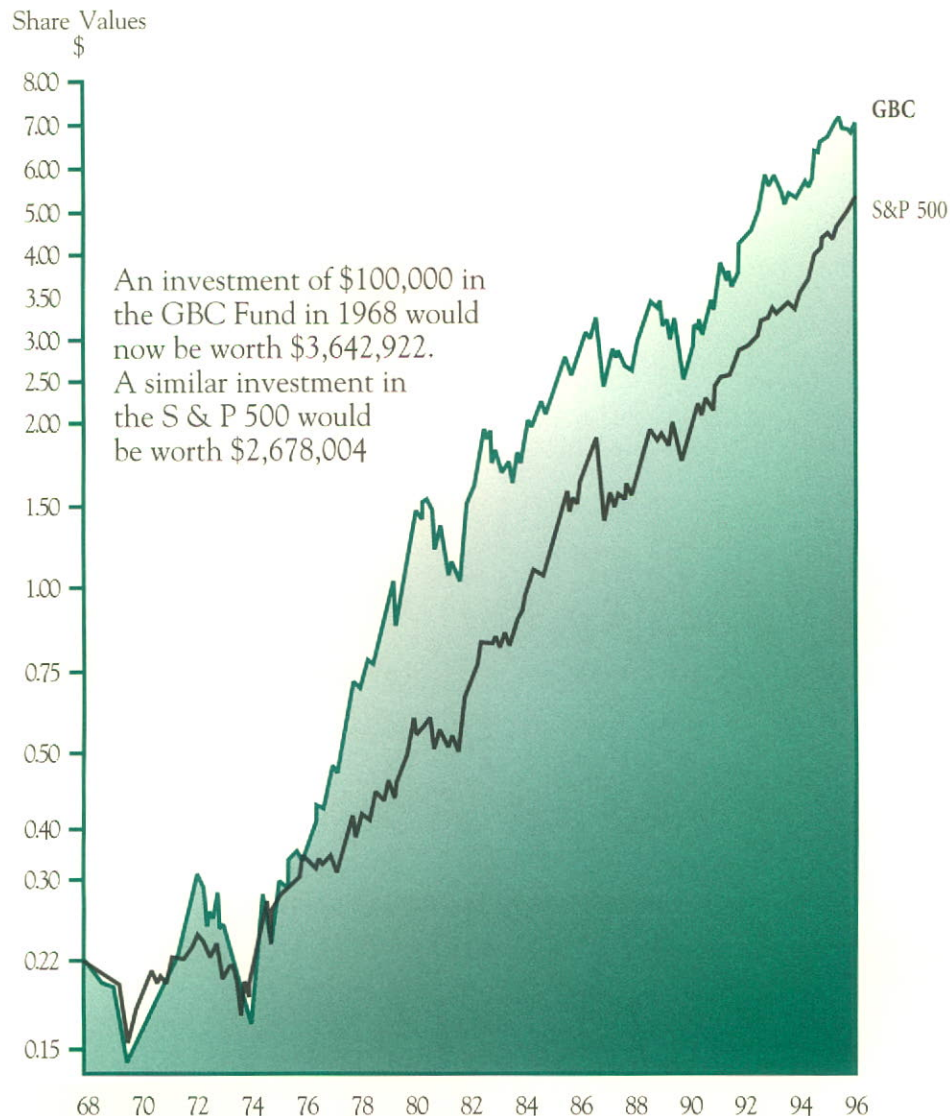
Fiscal Period <sup>1</sup>	Net Assets (\$'000)	Share Value (\$) <sup>2</sup>	Share Value (pence) <sup>2,3</sup>	Fiscal Period <sup>1</sup>	Net Assets (\$'000)	Share Value (\$) <sup>2</sup>	Share Value (pence) <sup>2,3</sup>
1996	109,874	8.08	344p	1991	129,752	3.44	174p
1995	119,636	7.29	344p	1990	114,172	2.63	121p
1994	122,108	5.73	261p	1989	172,979	3.54	185p
1993	130,590	5.97	306p	1988	199,517	2.62	127p
1992	125,817	3.96	178p	1987	266,456	3.21	151p

<sup>1</sup> As at September 30th for 1986 to 1992. As at December 31st for 1993 to 1996.

<sup>2</sup> Adjusted to reflect the effect of dilution from warrants to show appreciation per share since 1983 including dividends.

<sup>3</sup> Conversions were effected at the rate applicable at the end of each fiscal period.

GRAPH OF GBC SHARE VALUES COMPARED TO THE  
STANDARD & POORS 500 INDEX  
DECEMBER 1968 – 1996



Share values presented using logarithmic scale. Includes dividend reinvestment  
Expressed in Canadian dollars.



# MAJOR HOLDINGS

The paragraphs that follow describe four of GBC's larger portfolio holdings.



## PENNCORP FINANCIAL

103,500	\$5.1 MM	4.64%
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PennCorp Financial is one of several consolidators in the U.S. life insurance industry that is growing rapidly and profitability through opportunistic acquisitions and subsequent cost cutting. Over the past year the company has made three major acquisitions that are expected to double revenues in 1997 and allow a 20% plus growth in earnings per share.

The U.S. life insurance industry is mature and many companies are having difficulty maintaining adequate profitability because of high cost distribution networks and competitive industry conditions. A number of these companies are likely to fall prey to efficient operators like PennCorp, resulting in further consolidation of the industry and continued rapid growth for the acquirers.

During the second and third quarter of 1996, PennCorp's mortality experience at one of its subsidiaries was above expectations resulting in lower than expected earnings for both periods. Mortality experience is impossible to predict but it will either improve to normal levels in the fourth quarter or the company will reserve a significant amount in the fiscal period so that 1997 earnings will not be penalized. Even after the adverse mortality experience, PennCorp achieved record per share earnings for the first 9 months of 1996.

PennCorp's financial record since its formation in 1990 has been excellent, with steady revenue expansion and a 20% average annual earnings per share growth rate with no earnings dips. The top executives are substantial shareholders and have ambitious plans to grow the company into one of the major U.S. life companies.

### FINANCIAL INFORMATION

12 months to December 31st	US Dollars		
	1996*	1995	1994
Revenues (\$Mil.)	418	499	254
Net Income (\$Mil.)	68.6	63.4	37.1
Net Income Per Share \$	1.95	2.35	1.93

\* 9 months ended September 30, 1996

## FRANCO-NEVADA

MINING CORPORATION LIMITED



Shares Held	Market Value	% of Net Assets
49,600	\$3.1 MM	2.83%

Franco-Nevada is a thirteen year old Canadian royalty company whose shares are listed on the Toronto Stock Exchange. Its main assets are royalties and net profits interests in the Goldstrike mine operated by Barrick Gold Corporation in the Carlin Trend of Northern Nevada. Goldstrike is the largest gold mine outside of South Africa containing reserves of 23.0 million ounces with an average grade of 0.196 ounces of gold per ton. Goldstrike production amounted to 2.0 million ounces in 1995.

Franco's total royalty exposure in the Carlin Trend is over 64,000 acres. The Carlin Trend currently holds 25% of the world's gold reserves located outside of the former Soviet Union and South Africa.

A most important development involves the Midas project located at the north end of the Carlin Trend; in association with a sister company, Euro Nevada. On September 10, 1996 it was announced that continuing success at the Rex-Grande and Acme Zones, as well as an expanded year end exploration effort on three new zones, have motivated the Midas Joint Venture to increase its 1996 exploration and drilling budget to US\$12 million from US\$4.5 million. Total resources on the Rex-Grande Zone have been estimated at 3.0 million ounces of gold equivalent.

Company officials are hoping to have a feasibility study completed shortly so that plans can be advanced with respect to a possible 1999 initial production target date. The high grade ore, in combination with important by product silver production, will result in a very profitable operation.

Longer term the large Midas acreage position will allow for significant ongoing exploration work.

At September 30th, Franco had working capital of \$340 million with no debt of any kind. The company also has an oil and gas royalty division which is generating cashflow of approximately \$20 million per annum.

Franco-Nevada is an "owner operated" company dedicated to the maximization of per share market values.

### FINANCIAL INFORMATION

12 months to March 31st	Cdn Dollars		
	1997*	1996	1995
Revenues (\$Mil.)	78.9	80.9	77.2
Net Income (\$Mil.)	48.9	52.8	50.2
Net Income Per Share \$	1.38	1.58	1.55

\* 9 months ended December 31st, 1996



# MAJOR HOLDINGS



Shares Held	Market Value	% of Net Assets
48,000	\$2.8 MM	2.59%

Maxim Integrated Products designs, develops and manufactures linear and mixed-signal integrated circuits. Maxim's devices connect the real world and the digital world by detecting, measuring, amplifying and converting real world signals, such as temperature, pressure or sound, into the digital signals necessary for computer processing. The company markets over 1000 products (of which more than 700 are unique proprietary products) targeting small market niches.

The company has an outstanding record of growth in both sales and earnings which have increased every year for the past ten years. This track record is virtually unmatched in the semiconductor industry.

Maxim's products are primarily found in instrumentation, communications devices, industrial products and portable computer products. The company's broad product line and diversity of customers somewhat shield it from specific technology product cycles. Analog chips require significant design expertise but do not rely on using the latest and most expensive manufacturing technologies. This means that Maxim's products are non-commodity items and can be produced in relatively inexpensive factories.

Maxim's long term growth prospects appear excellent. The company has unique capabilities which are difficult to duplicate. They believe it takes them seven or eight years to make a good analog engineer out of a University graduate. The need for Maxim's products to solve problems in wireless and portable electronics and instrumentation will continue to expand the market. The company is extremely strong financially with a debt free balance sheet, and has a demonstrated ability to execute profitability in a quickly growing market.

## FINANCIAL INFORMATION

12 months to June 30th	1996	US Dollars 1995	1994
Revenues (\$Mil.)	421.6	250.8	153.9
Net Income (\$Mil.)	122.3	38.9	24.1
Net Income Per Share \$	1.74	0.59	0.38



Shares Held	Market Value	% of Net Assets
35,300	\$2.6 MM	2.35%

Founded in 1977, Soletron is now one of the world's leading providers of electronic manufacturing services. They perform assembly work for many high technology companies, including IBM, Hewlett-Packard, Intel and Silicon Graphics. Having won the Malcolm Baldrige National Quality Award and with facilities in the United States, Europe and Asia, Soletron is ideally suited to be a global manufacturing partner.

The fund first purchased shares of Soletron during 1991, at a split adjusted price of \$6.50. The stock has performed very well as the company has been able to combine internal growth with the acquisition of facilities, resulting in substantial growth. During the past five years, revenues have increased at an annual rate of 60%, while earnings per share growth has been 44%. During the most recent fiscal year revenues and earnings grew 36% and 33% respectively. The company manages its balance sheet carefully and most recently generated an 18% return on equity.

The outlook for Soletron continues to be very positive due to the strong fundamentals of electronics industry, the continued trend towards outsourcing and management's focus on profitable growth.

## FINANCIAL INFORMATION

12 months to August 31st	1996	US Dollars 1995	1994
Revenues (\$Mil.)	2,817.2	2,065.6	1,456.8
Net Income (\$Mil.)	114.2	79.5	55.5
Net Income Per Share \$	2.17	1.62	1.18



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## AUDITORS' REPORT

To the Shareholders of  
The GBC North American Growth Fund Inc.

We have audited the statements of net assets of The GBC North American Growth Fund Inc. as at December 31, 1996 and 1995, the statements of earnings and changes in net assets for the years then ended, and the statement of investment portfolio as at December 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and December 31, 1995, and the results of its operations and the changes in its net assets for the years then ended in accordance with generally accepted accounting principles.

*Debitte & Touche*

Chartered Accountants  
January 17, 1997

## STATEMENTS OF NET ASSETS

	as at December 31 1996	as at December 31 1995
<b>Assets</b>		
Investments		
Securities, at market value (Note 3)		
(cost \$62,859,072;		
1995 - \$69,824,304)	\$ 99,668,933	\$109,162,456
Cash	4,149,456	5,819,727
Due from brokers	1,011,520	—
Subscriptions receivable	—	4,934
Accrued income	107,258	100,500
Income taxes recoverable (Note 9)	5,199,498	4,970,233
Refundable Quebec sales tax	40,545	42,958
	<u>110,177,210</u>	<u>120,100,808</u>
<b>Liabilities</b>		
Due to brokers	124,435	218,138
Redemptions payable	—	53,829
Accrued expenses	178,546	192,415
	<u>302,981</u>	<u>464,382</u>
<b>Net assets</b>	<u>\$109,874,229</u>	<u>\$119,636,426</u>
Represented by shareholders' equity (Note 4)	<u>\$109,874,229</u>	<u>\$119,636,426</u>
Net asset value per share	<u>\$8.08</u>	<u>\$7.29</u>

Approved by the board

*l.c. A Sater*

Director

*E. L. Lunn*

Director



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## STATEMENTS OF EARNINGS

	Year ended December 31 1996	Year ended December 31 1995
<b>Revenue</b>		
Interest	\$ 306,955	\$ 438,384
Dividends (net of withholding taxes of \$76,207; 1995 – \$90,893)	515,311	582,667
	<u>822,266</u>	<u>1,021,051</u>
<b>Expenses</b>		
Management fees	1,887,418	1,869,178
Directors' fees	77,000	76,000
Audit fees	14,000	18,980
Legal fees	24,746	34,084
Shareholders' information fees	150,301	136,439
Custodial fees	30,095	22,856
Other expenses	80,796	143,705
	<u>2,264,356</u>	<u>2,301,242</u>
Income tax expense (recovery) (Note 9)	14,576	(38,727)
	<u>2,278,932</u>	<u>2,262,515</u>
<b>Net loss</b>	<u>\$(1,456,666)</u>	<u>\$(1,241,464)</u>
<b>Net loss per share</b> (Based on the average number of shares outstanding during the year)	<u>\$(0.094)</u>	<u>\$(0.068)</u>



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## STATEMENTS OF CHANGES IN NET ASSETS

	Year ended December 31 1996	Year ended December 31 1995
<b>Additions to net assets</b>		
Net realized gain on sale of investments		
Proceeds from sale of investments	\$ 57,112,399	\$ 56,206,314
Investments at cost, beginning of year	69,824,304	72,070,699
Investments purchased	34,899,782	31,585,082
Less investments at cost, end of year	(62,859,072)	(69,824,304)
Cost of investments sold	41,865,014	33,831,477
Foreign exchange gain (loss)	15,247,385 170,175	22,374,837 (334,731)
Net realized gain on sale of investments	15,417,560	22,040,106
Proceeds on issue of shares	7,618,251	7,672,188
Increased in unrealized appreciation of investments	—	7,289,553
Total additions	23,035,811	37,001,847
<b>Deductions from net assets</b>		
Net loss	1,456,666	1,241,464
Redemptions of shares	28,813,051	38,231,748
Decrease in unrealized appreciation of investments	2,528,291	—
Total deductions	32,798,008	39,473,212
Decrease in net assets	(9,762,197)	(2,471,365)
Net assets, beginning of year	119,636,426	122,107,791
Net assets, end of year	109,874,229	\$119,636,426



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 1996

Shares	Security Name	Cost (1)	Market Value (1)		% of Net Assets	Main Activity
			Canada	U.S.		
103,500	PennCorp Financial Group	3,078,127		5,103,130	4.64	Insurance
77,000	Telephone & Data Systems	3,643,464		3,822,896	3.48	Diversified Telecommunications
121,000	Right Management Consultants	583,423		3,687,306	3.35	Executive Placement Services
81,700	Synovus Financial	830,480		3,594,669	3.27	Banking
49,600	Franco-Nevada Mining	775,262	3,112,400		2.83	Gold Royalties
70,500	Safeguard Scientifics	539,673		3,065,678	2.79	Venture Capital Investment Company
116,100	Cognex	2,315,842		2,941,695	2.68	Machine Vision Technology
48,000	Maxim Integrated Products	2,063,995		2,843,290	2.59	Linear Integrated Circuits
35,300	Sollectron	354,529		2,580,515	2.35	Contract Manufacturer
54,500	Carnival Corporation "A"	1,337,708		2,463,226	2.24	Cruise Ship Operations
<b>Top ten securities</b>		<b>15,522,503</b>	<b>3,112,400</b>	<b>30,102,405</b>	<b>30.22</b>	
44,000	Adaptec	1,028,965		2,410,496	2.19	Computer Interface Cards
32,400	Teva Pharmaceuticals ADR	1,688,344		2,229,846	2.03	Generic Drug Developer
80,000	Four Seasons Hotels	1,114,590	2,220,000		2.02	Luxury Hotel Operator
49,000	Electronic Arts	782,914		2,009,151	1.83	Entertainment Software
45,000	Dialogic Corporation	966,181		1,941,408	1.77	Voice Mail Technology
50,100	Cousins Properties	1,129,308		1,929,853	1.76	Commercial Real Estate
40,000	Renaissance Energy	93,533	1,866,000		1.70	Oil and Gas Producer
51,000	ACT Manufacturing	907,350		1,842,283	1.68	Contract Manufacturer
45,500	Hummingbird Communication	2,166,084	1,797,250		1.64	Connectivity Software
64,800	Champion Enterprises	815,373		1,730,627	1.57	Mobile Home Manufacturer
<b>Top twenty securities</b>		<b>26,215,145</b>	<b>8,995,650</b>	<b>44,196,069</b>	<b>48.41</b>	
48,000	Belden & Blake	825,546		1,676,390	1.53	Oil and Gas Producer
23,800	Shared Medical Systems	1,210,705		1,605,377	1.46	Hospital Information System
33,500	Elan Corporation plc ADR	553,326		1,525,563	1.39	Drug Delivery
33,000	Infinity Broadcasting "A"	232,714		1,519,742	1.38	Radio Broadcasting
29,000	National Commerce	900,881		1,519,229	1.38	Regional Bank
35,000	Genesis Health Ventures	655,115		1,492,008	1.36	Manager of Long-Term Health Care Facilities
35,000	ACC	967,311		1,450,064	1.32	Long Distance Telephone Services
87,000	Centennial Cellular "A"	1,810,482		1,444,757	1.31	Cellular Telephone Operator
30,000	Devon Energy	640,156		1,427,808	1.30	Oil and Gas Producer
22,900	PRI Automation	1,071,494		1,427,055	1.30	Semi Conductor Equipment
<b>Top thirty securities</b>		<b>35,082,875</b>	<b>8,995,650</b>	<b>59,284,062</b>	<b>62.14</b>	
32,500	O'Reilly Automotive	913,481		1,424,384	1.30	Automotive Parts Retailer
37,500	JDN Realty	1,158,908		1,418,820	1.29	Community Shopping Centre Developer
23,100	Black Box	744,358		1,305,058	1.19	Communication Products Distribution
38,000	Logan's Roadhouse	554,192		1,223,053	1.11	Casual Dining Restaurants
51,000	Res-Care	585,142		1,222,368	1.11	Service for Medically Handicapped
19,300	Tidewater	1,047,412		1,196,106	1.09	Oil Service
56,500	Amvestors Financial	1,122,509		1,141,390	1.04	Annuities and Insurance
45,000	Comcast "A"	488,173		1,086,264	0.99	Cable Television and Home Shopping
30,000	Service Experts	669,375		1,068,288	0.97	Heating and Air Conditioning Maintenance
110,000	Kinross Gold	736,266	1,067,000		0.97	Gold Producer
<b>Top forty securities</b>		<b>43,102,691</b>	<b>10,062,650</b>	<b>70,369,793</b>	<b>73.20</b>	



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 1996

Shares	Security Name	Cost (1)	Market Value (1)		% of Net Assets	Main Activity
			Canada	U.S.		
28,000	Arbor Healthcare	751,362		997,069	0.91	Manager of Long-term Health Care Facilities
60,000	Franklin Electronic Publishers	1,609,499		996,384	0.91	Portable Electronic Reference Books
50,000	Denbury Resource	407,762		992,960	0.90	Oil and Gas Producer
16,800	Advanta "B"	1,038,556		940,504	0.86	Credit Card Issuer
627,025	ActaMed Pfd. Conv.	903,124		898,799 <sup>(2)</sup>	0.82	Health Care Communications
42,000	Paging Network	418,011		877,229	0.80	Paging Services
33,500	Ballard Medical Products	527,443		854,545	0.78	Medical Device Manufacturer
68,500	NABI	954,092		820,904	0.75	Plasma Collector and Drug Developer
50,000	Greenstone Resources	811,001	797,500		0.72	Gold Producer
28,500	National Dentex	518,406		785,551	0.71	Manufacturer of Dental Laboratories
<b>Top fifty securities</b>		<b>51,041,947</b>	<b>10,860,150</b>	<b>78,533,738</b>	<b>81.36</b>	
100,000	Valuevision International	918,848		736,160	0.67	Cable T.V. Shopping
46,500	Southern Energy Homes	831,643		732,394	0.67	Mobile Home Manufacturer
12,000	McAfee Associates	453,682		719,040	0.65	Anti-Virus Software
16,500	Renal Care Group	546,340		714,674	0.65	Kidney Dialysis
151,515	Peritus Software	672,399		684,799 <sup>(2)</sup>	0.62	Software Maintenance and Services
24,000	QLT Phototherapeutics	575,281	666,000		0.61	Pharmaceuticals
20,000	Berkley Petroleum	610,467	662,000		0.60	Oil and Gas Producer
13,000	IDEXX LABS	709,721		640,973	0.58	Veterinary Medical Testing
47,300	Protection One	657,967		639,723	0.58	Security Services
26,300	PMT Services	230,008		630,358	0.57	Credit Card Processor
<b>Top sixty securities</b>		<b>57,248,303</b>	<b>12,188,150</b>	<b>84,031,859</b>	<b>87.57</b>	
34,900	SOS Staffing Services	469,390		501,890	0.46	Temporary Help Services
24,000	Kensley Nash	490,217		493,056	0.45	Medical Devices
18,500	Macromedia	568,998		456,077	0.41	Graphics Software
28,000	Transaction Network	642,026		441,011	0.40	Transaction Processing Networks
25,000	Activision	441,634		440,840	0.40	Entertainment Software
23,200	Complete Management	433,552		409,100	0.37	Physicians Practice Management
15,200	Microware Systems	367,665		296,655	0.27	Computer Operating Systems
16,800	Maxis	358,186		281,864	0.26	Entertainment Software
7,050	Sanchez Computer Associates	52,605		76,038	0.07	Banking Software
1,700	Mazel Stores	43,303		52,387	0.05	Off Price Retailing
<b>Top seventy securities</b>		<b>61,115,879</b>	<b>12,188,150</b>	<b>87,480,777</b>	<b>90.71</b>	
— Other investments		1,743,193		6 <sup>(2)</sup>	—	
<b>Subtotal-securities</b>		<b>62,859,072</b>	<b>12,188,150</b>	<b>87,480,783</b>	<b>90.71</b>	
<b>Total securities</b>			<b>99,668,933</b>			
<b>Other assets - net</b>			<b>10,205,296</b>		<b>9.29</b>	
<b>Total net assets</b>			<b>\$109,874,229</b>		<b>100.00</b>	

(1) All amounts are in Canadian dollars.

(2) Reflects directors' valuation. See Note 3.



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## NOTES TO THE FINANCIAL STATEMENTS

years ended December 31, 1996 and 1995

### 1. THE FUND

The GBC North American Growth Fund Inc. was a closed-end investment corporation until October 1, 1988, when Articles of Amendment were issued converting the Corporation to an open-end mutual fund corporation.

### 2. ACCOUNTING POLICIES

#### a. Investments

Investments are recorded at market values determined by the latest sale price recorded by the security exchange on which the security is principally traded or, lacking any recent sales, the mean of the latest available bid and ask prices. Investments with no quoted market value are valued at directors' valuation. The difference between the market value and the average cost of investments is reported as unrealized appreciation of investments and is included in shareholders' equity.

Investment transactions are accounted for on the trade date. Average cost is used to determine the realized gain or loss on sale of investments.

Purchases and sales of investments in foreign currencies are recorded at the rate of exchange prevailing on the respective dates of such transactions. The market values of foreign investments represent their quoted market values converted at rates of exchange prevailing at year-end.

#### b. Recognition of revenue and expenses

Revenue and expenses are recorded using the accrual method. Dividend income is recognized on the ex-dividend date net of withholding taxes and interest income is recognized as earned. Foreign investment income is converted into Canadian dollars at the rate of exchange prevailing on the respective dates income is received.

#### c. Issue and redemption of common shares

The value at which shares are issued or redeemed by the Fund is determined by dividing the net assets of the Fund at market value by the total number of shares outstanding.

### 3. SECURITIES

Investments include securities, with an aggregate cost of \$3,318,716 (1995 - \$2,646,317), which have no quoted market. These securities are valued by the directors at \$1,583,604 (1995 - \$895,917).



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## 4. SHAREHOLDERS' EQUITY

Shareholders' equity includes the amount representing the share capital, the retained earnings or deficit, the cumulative gains or losses on disposal of investments and the unrealized appreciation of investments.

The capital of the Fund consists of an unlimited number of common shares without nominal or par value. All common shares have equal rights and privileges. Common shares are redeemable at the shareholder's option at net asset value. The following is a summary of the changes in issued and outstanding common shares during each year:

	1996	1995
Outstanding, beginning of year	16,406,996.473	21,302,838.470
Issue	998,877.524	1,201,387.680
Redemptions	3,801,969.363	6,097,229.677
Outstanding, end of year	13,603,904.634	16,406,996.473

## 5. MANAGEMENT FEES

Management fees are paid to the manager, GBC Asset Management Inc., in consideration for investment management, administrative and advisory services calculated at a rate of 1.5% per annum based on the net assets of the Fund at the end of each month.

## 6. ANALYSIS OF MANAGEMENT FEES AND OTHER EXPENSES

	1996 (12 months)	1995 (12 months)	1994 (12 months)	1993 (15 months)	1992 (12 months)
Management fees	\$1,763,942	\$1,746,895	\$1,850,276	\$2,222,298	\$1,963,890
Other fees and expenses	366,864	425,945	423,551	496,246	471,295
	<u>2,130,806</u>	<u>\$2,172,840</u>	<u>\$2,273,827</u>	<u>\$2,718,544</u>	<u>\$2,435,185</u>
As a percentage of average net assets (annualized)	1.81%	1.87%	1.84%	1.84%	1.85%

For purposes of management fees and other expenses ratios, the 7% federal Goods and Services Tax is excluded.

## 7. NET ASSET VALUE AND DISTRIBUTIONS PER SHARE

The Fund's net asset value and distributions per share are as follows:

	1996 (12 months)	1995 (12 months)	1994 (12 months)	1993 (15 months)	1992 (12 months)
Net asset value	\$8.08	\$7.29	\$5.73	\$5.97	\$3.96
Distributions per share	\$ —	\$ —	\$ —	\$ —	\$ —



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## 8. BROKERAGE COMMISSIONS

Commissions paid to brokers for portfolio transactions during the year amounted to \$534,084 (1995 - \$474,355).

## 9. INCOME TAXES

The Fund is treated as a Mutual Fund Corporation under the Income Tax Act (Canada). Income tax on net realized capital gains is recoverable by the Fund as capital gains which are distributed to shareholders either through share redemptions or the declaration of capital gains dividends. Income taxes paid on dividends from taxable Canadian corporations may be refunded, generally at the rate of \$1 for every \$3 of taxable dividends paid. Refundable dividend taxes as at December 31, 1996, aggregate approximately \$371,000 (1995 - \$348,000).

## 10. REDEMPTION OF SHARES

As shareholder may at any time redeem all or, subject to the Fund's minimum investment requirements, any of the shares held in the Fund. A notice of redemption must be given in writing to the manager at any of its offices in Canada. The value of the shares to be redeemed will be established as of the valuation date following the receipt of such notice. Within three business days following the valuation date, the manager will pay the shareholder by cheque the value of the shares redeemed.

## 11. STATEMENT OF PORTFOLIO TRANSACTIONS

A statement of portfolio transactions will be provided without charge upon request by writing to the Manager: GBC Asset Management Inc., 1010 Sherbrooke St. West, Suite 800, Montreal, Quebec, H3A 2R7.



# THE GBC NORTH AMERICAN GROWTH FUND INC.

## DIRECTORS

\*Douglas T. Bourke  
Business Executive,  
Westmount, Quebec

Jean E. Douville, F.C.A.  
Chairman,  
Schroders & Associates Canada Inc.,  
Town of Mount-Royal, Quebec

\*Donald E. Dunn, C.A.  
President,  
Nodvest Inc.,  
Dorval, Quebec

\*George A. Fierheller  
President,  
Four Halls Inc.,  
Toronto, Ontario

R. Alexander Hammond-Chambers  
Chairman,  
Covey Advertising Ltd.,  
Edinburgh, Scotland

Hugh R. Snyder  
Chairman,  
Greenstone Resources Ltd.,  
Toronto, Ontario

Ian A. Soutar, CFA  
Chairman & Chief Executive Officer,  
Pembroke Management Ltd.,  
Westmount, Quebec

\*Members of the Audit Committee

## OFFICERS

Ian A. Soutar, CFA,  
President & Chief Executive Officer

A. Scott Taylor, CFA,  
Vice-President

Michael P. McLaughlin, C.A.,  
Secretary-Treasurer

John Connolly,  
Assistant Secretary-Treasurer

## INVESTMENT MANAGER

Pembroke Management Ltd.  
1010 Sherbrooke Street West, Suite 818,  
Montreal, Quebec H3A 2R7

## AUDITORS

Deloitte & Touche, Chartered Accountants  
1 Place Ville Marie,  
Montreal, Quebec H3B 4T9

## TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,  
Montreal, Quebec

## ANNUAL MEETING

21st April, 1997, 10:00 a.m.  
1010 Sherbrooke Street West, Suite 818,  
Montreal, Quebec

## MANAGER/DISTRIBUTOR

GBC Asset Management Inc.  
1010 Sherbrooke Street West, Suite 800,  
Montreal, Quebec H3A 2R7  
Tel.: 514-848-0716 Fax: 514-848-9620  
Toll Free: 1-800-667-0716

and

55 University Avenue, Suite 300,  
Toronto, Ontario M5J 2H7  
Tel.: 416-366-2550 Fax: 416-366-6833  
Toll Free: 1-800-668-7383

Internet: <http://www.gbc.ca>

Important information about the GBC Funds is  
contained in a simplified prospectus. Obtain a copy from  
GBC and please read it carefully before investing.

Ce rapport est disponible en français.







