

## Fund Review

As we predicted in our past several commentaries, the equity markets have performed poorly so far this summer although we are still in the early days. As at June 30, the TSX Composite had declined by 7% from its April high while the TSX Venture had declined by 16%. In June, the Fund declined by 2.7% as compared to declines of 6.5% for the TSX Venture and 3.7% for the TSX Composite. We are pleased that we have been able to achieve significant outperformance over the Canadian indices over this period and have maintained a positive return of 8.1% on a year to date basis while both indices as well as the majority of funds in our peer group have suffered negative returns.

One of the positive contributors to the Fund's performance during June was Spider Resources. Cliffs Resources increased its takeover offer for the company to \$0.19 per share. This represents a 580% return on the Fund's initial investment which was made earlier this year.

The Fund's current weighting is 48% in the resource sector, 23% in technology, 12% in special situations/other and 5% in biotechnology. The Fund has reduced short positions in anticipation of a market rally as the TSX Composite recently neared the bottom of our expected trading range of 11,000 to 12,000. The Fund has maintained a short position in Comex gold. As at June 30, the Fund was 7.2% cash.

## Monthly Performance (%)\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												7.4	7.4
2008	(5.0)	21.6	(10.1)	(5.6)	8.1	19.2	(20.7)	0.7	(29.1)	(31.9)	(4.9)	0.7	(53.3)
2009	9.0	(3.5)	4.0	21.2	9.0	14.1	11.5	9.0	19.1	1.2	4.1	3.7	160.6
2010	(8.5)	1.7	14.0	6.4	(1.6)	(2.7)							8.1

## Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite
<b>Returns *</b>			
1 Month	<b>(2.7%)</b>	(6.5%)	(3.7%)
3 Month	<b>1.9%</b>	(10.2%)	(5.5%)
YTD	<b>8.1%</b>	(6.9%)	(2.6%)
1 Year	<b>70.7%</b>	29.7%	10.9%
2 Year	<b>2.0%</b>	(26.7%)	(8.8%)
Since Inception (annualized)	<b>14.3%</b>	(22.5%)	(4.3%)
Since Inception (cumulative)	<b>41.2%</b>	(48.3%)	(10.6%)
Avg. Monthly Return (Since Inception)	<b>2.2%</b>	(1.4%)	(0.3%)
Best Month	<b>21.6%</b>	11.4%	11.5%
Worst Month	<b>(31.9%)</b>	(35.3%)	(16.7%)
Advancing Months	<b>64.5%</b>	51.6%	51.6%
Current NNAV: Class A	<b>14.1154</b>		
Class D	<b>11.4539</b>		

## Outlook

Weak equity markets over the past couple of months have prompted talk in the press of a double dip recession and another major leg down for equities. We do not hold this belief. In contrast to the bearish prognostications of high profile commentators for which the media routinely gives a platform at every period of weakness in equities, we would like to highlight a few data points that we find of particular interest and which are supportive of strength in equities over the longer term.

Firstly, a major competing asset class for equities is fixed income. US 10 year bond yields are now back to the 3.0% level which is the lowest level in two years and in our opinion, reflects the absence of inflation and flight to safety. This decline and future return potential does not compare favourably to equities. The forward price to earnings multiple for both the S&P500 and TSX Composite is currently a modest 13x which is below the long term average. It should be expected to be higher given the low interest rate environment. This results in an earnings yield of 7.5% which compares quite favourably to returns available from fixed income products. It provides significant room for error compared to current fixed income yields which are offering nominal returns.

RBC Capital distributed a good strategy piece which pointed out that cash levels for S&P 500 index companies as a percentage of assets are currently at a record high in the post war era. According to the report, there is currently \$707 billion in cash (ex-Financials) on the balance sheets of these companies. These cash levels are being put to work and are supportive for stock prices. Dividends have been increased by \$11 billion year to date while share buybacks have also increased significantly in recent months.

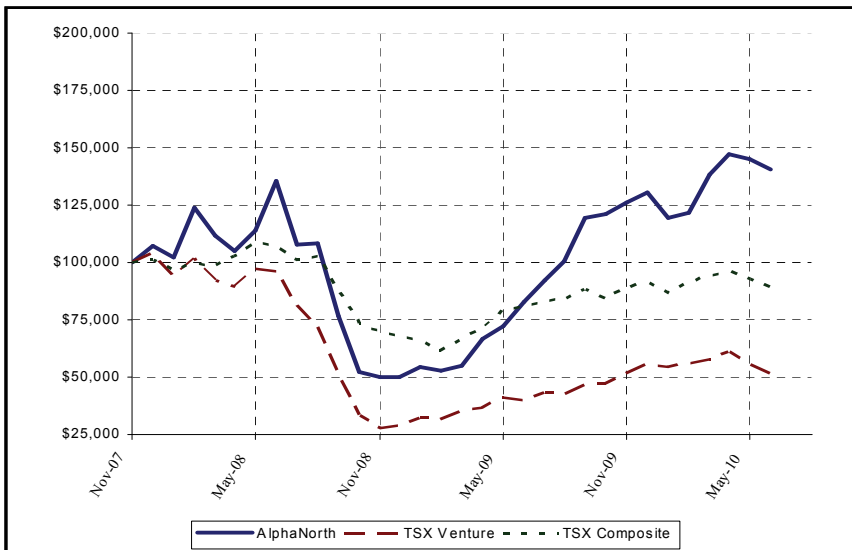
After recent trading to the lower end of our expected trading range of 11,000 to 12,000, we believe the TSX is positioned for near term strength. However, we believe it is unlikely that we will see a breakout above 12,000 until sometime after October of this year.

Regards,



Steven Palmer, CFA  
President and CEO

## Growth of Initial Investment (\$100,000)



## Terms

<b>Lead Manager:</b>	Steven Palmer
<b>Inception:</b>	December 1, 2007
<b>Minimum Investment:</b>	\$150,000
<b>Subsequent Investments:</b>	\$25,000
<b>Sub/Redemption:</b>	Monthly, 90 day notice
<b>Valuation:</b>	Monthly
<b>Lock-up:</b>	None
<b>Redemption Fee:</b>	Class A – none Class D – 3% in yr 1, 1.5% in yr 2
<b>High Water Mark:</b>	Yes (no reset)
<b>Management Fee:</b>	Class A 2%, Class D 2.5%
<b>Performance fee:</b>	20%
<b>Auditor:</b>	Deloitte
<b>Administration:</b>	Harmonic Fund Services
<b>Prime Broker:</b>	Scotia Capital

## Investment Strategy

The AlphaNorth Partners Fund (the "Fund") is a long biased small cap hedge fund focusing primarily on Canadian companies. The Fund's investment objective is to achieve industry leading long term capital growth through superior selection of principally Canadian securities. AlphaNorth believes that superior long term investment returns are achievable by exploiting inefficiencies in the Canadian small cap universe through careful security selection on both a long and short basis. The firm combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics. AlphaNorth employs various technical analysis techniques, which have proven to be successful, to assist in the timing of buy/sell decisions.

## Company Profile

Founded in 2007, AlphaNorth Asset Management's goal is to achieve superior long term returns for investors. Our value added approach combines the successful track record and investment experience of Steven Palmer and Joey Javier who have worked together as a team since 1998 in the investment industry. Presently, AlphaNorth manages the AlphaNorth Partners Fund, a long biased small cap focused hedge fund and the AlphaNorth 2010 Flow-Through LP.

### Key Personnel:

**Steven Palmer** is the President, CEO and Director of AlphaNorth Asset Management. Mr. Palmer started his career in the investment industry in 1995 on the sell side of the business before transitioning to the buy side in 1997. Most recently, from July 1998 to August 2007 he was employed as Vice President - Canadian Equities at one of the world's largest financial institutions where he managed the Canadian equity assets of approximately \$350 million. Mr. Palmer managed a pooled fund focused on small capitalization companies from inception in 1998 to August 2007 achieving returns that were ranked #1 in performance by a major fund ranking service in their small cap pooled fund category (35.8% over 9 years as compared to 10.0 for the S&P/TSX Composite and 13.0% for the BMO Weighted Small Cap Total Return Index) over the same period. Mr. Palmer also managed a large cap fund which was ranked in the first quartile for the following time periods: one year, two year, 3 year, 4 year, 5 year and 10 year. Mr. Palmer earned a BA in Economics from the University of Western Ontario and is a CFA.

**Joey Javier** is Vice President, Secretary and a Director of AlphaNorth Asset Management. Mr. Javier started his career in the investment industry in 1997 as an Equity Trader for one of the world's largest financial institutions where he worked together with Mr. Palmer as the equity team. Mr. Javier was responsible for all equity and money market trading as well as back-up for the fixed income portfolio manager. Mr. Javier has a BA in Economics from York University.

## Disclaimer

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