



**AlphaNorth**  
Asset Management

# FUND COMMENTARY

## AlphaNorth Partners Fund

January 2012

NAV

Class A (AAM100) \$30.1643  
Class D (AAM200) \$24.4465

**Fund Review** Markets have had a strong start to 2012 as the TSX gained 4.4% and the TSX Venture returned 9.9% in January. The Fund gained 5.6% during the month of January. Small cap equities, as measured by the TSX Venture, had initially lagged the large caps but they started to rally strongly after Christmas. This is the usual trend because as investor fear dissipates, they will typically start to look to small/mid cap equities. It is likely that mergers and acquisitions will also start to play a role as senior companies acquire smaller companies which remain incredibly cheap. The Fund's recent above average long exposure has begun to reap rewards.

The Fund is diversified across sectors with 43% invested in technology including biotech/pharma, 24% in energy, 27% in metals and 6% in precious metals. The Fund maintained a small overinvested position.

**Outlook** Since 1950, stocks in the U.S. have finished lower at year end only three times after posting gains in January, according to the Stock Traders Almanac. The theory postulates that if equities are higher in January, so goes the year. 2012 is also an election year in the U.S., which is typically good for equities. Our macro outlook continues to unfold as we predicted in previous commentaries with an astounding similarity to the 1998/1999 experience as we outlined in our Special Market Commentary of last October. In our view, we are seeing the early days of the small cap rally as the TSX Venture index had a very strong month. An assortment of strong economic data in recent weeks, particularly in North America, have provided the positive backdrop for a rally as investor concern about the European crisis dissipates.

Our recent observations which support our bullish outlook include:

- insider transactions have been heavily biased towards buying
- an improving U.S. housing market as homes available for sale dropped 9.2% to the lowest level since 2005 while inventories dropped to 6.05 months supply which is associated with rising prices
- China's copper imports in December were the highest ever at +78%
- Q4/11 U.S. GDP was +2.8% compared to 1.8% last quarter
- U.S. government spending is already down 4.6%, the biggest annual drop since 1971 and this is before the belt tightening that is expected
- U.S. unemployment has dropped from 9.8% in Nov. 2010 to 8.3% in January 2012, one of the fastest drops on record
- The American Trucking Associations' index of commercial truck shipments, by weight, rose 5.9% in 2011 (the largest gain since 1998)
- January 2012 annualized U.S. car sales were 14.13m vs 13.5m in Dec
- ISM Manufacturing index has increased 3 months in a row to 60.1 (higher than 50 indicates economic expansion)

**Our prediction that equities would rally significantly has materialized. At this time, it is likely that equities will consolidate before resuming a strong uptrend into year-end which we continue to believe will result in new all-time highs for the TSX this year. If this prediction proves correct, it implies dramatically higher levels for small cap equities.**

Regards,



*Steven Palmer*  
Steven Palmer, CFA  
President and CEO

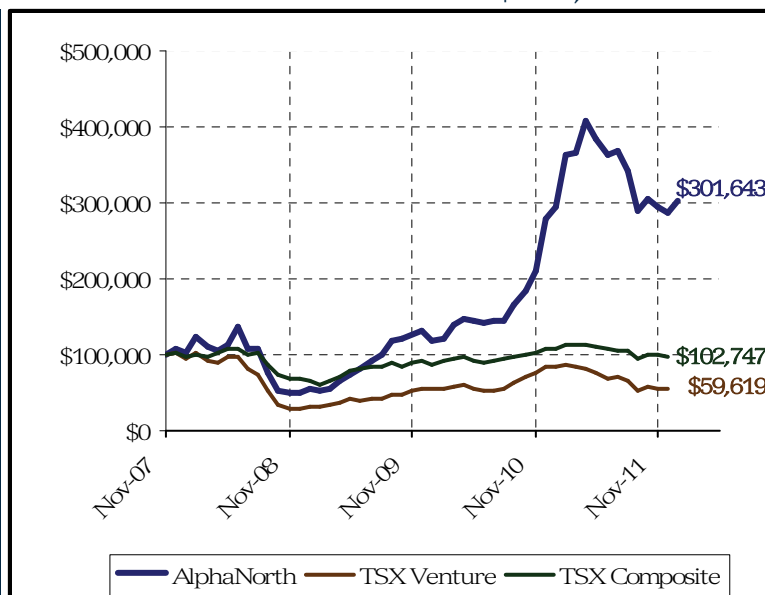
### Monthly Performance\*

	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%)	2.6%	(0.4%)	14.2%	11.3%	15.4%	31.9%	113.6%
2011	5.8%	23.0%	0.9%	11.7%	(5.7%)	(5.7%)	1.0%	(6.5%)	(15.6%)	5.6%	(3.8%)	(2.9%)	2.4%
2012	5.6%												5.6%

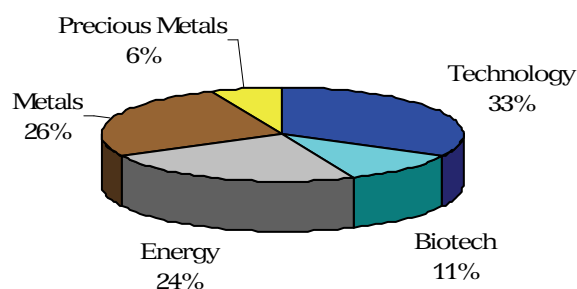
### Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite
<b>Returns *</b>			
1 Month	5.6%	9.9%	4.4%
YTD	5.6%	9.9%	4.4%
1 Year	2.2%	(28.3%)	(5.6%)
2 Year	58.9%	4.6%	8.8%
3 Year	76.8%	22.7%	16.0%
Since Inception (annualized)	30.3%	(11.7%)	0.7%
Since Inception (cumulative)	201.6%	(40.4%)	2.7%
Best Month	31.9%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	64.0%	52.0%	54.0%
Standard Deviation	42.8%	36.2%	18.3%
Sharpe Ratio	0.69	(0.35)	(0.1)
Beta		0.96	1.76

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



## Sector Allocation



## Fund Information

Lead Manager	Steven Palmer
Inception	December 1, 2007
Fund Type	Alternative Strategies (Long biased small cap)
Fund Status	Closed to new investors
Fund Codes	Class A— AAM100 Class D— AAM200
Assets	\$90 million +
Eligibility	Accredited Investors only
Fund Details	Management Fee Class A- 2%, Class D- 2.5% 20% Performance Fee RRSP eligible High water mark (no reset) Monthly valuation \$150k minimum investment
Sub/Redemption	Monthly, 90 day notice
Lock-up	None
Redemption Fee	Class A—none; Class D—3% yr 1, 1.5% yr 2
Auditor	Deloitte
Administration	Harmonic Fund Services
Prime Broker	Scotia Capital
Legal	Stikeman/Maples & Calder

## 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 maximize returns over the long term 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. Fundamental analysis of companies is used in combination with technical analysis techniques, which has proven to be successful, to assist in the timing of buy/sell decisions. The firm combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics.

## 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, the AlphaNorth 2010 Flow-Through LP, the AlphaNorth 2011 Flow-Through LP and the AlphaNorth Growth Fund.

### Key Personnel:

**Steven Palmer** is the President and CEO 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% annualized 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 and Secretary 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

*\*The information contained in this document is not a solicitation to sell any investment products offered by AlphaNorth Asset Management. The information contained herein is for discussion purposes only. Please refer to the Offering Memorandum for complete details of any investment products offered by AlphaNorth Asset Management. There is no guarantee of performance and past performance is not indicative of future results. Returns are presented for Class A shares on an annualized basis except where noted and stated net of all fees. Returns subsequent to 2010 are unaudited. The inception date is December 1, 2007.*