



**AlphaNorth**  
Asset Management

# FUND COMMENTARY

## AlphaNorth Partners Fund

August 2012

NAV

Class A (AAM100) \$24.1085  
Class D (AAM200) \$19.4725

**Fund Review** Equity markets continued to perform strongly in August. The Fund returned 0.9% as compared to 2.7% for the TSX Composite and 4.9% for the TSX Venture. Although Canadian equities have been among the poorest performing equity markets on a year to date basis, we believe this will reverse in the near term. Continued strength in commodity prices should have a disproportionate benefit to Canadian equities.

One of our portfolio holdings, CIC Energy (TSX:ELC), received final approval on a takeover for \$2.00 per share in cash during the month. This provided a strong return from below \$1.00 where it was recently trading in June. There are many similarly undervalued portfolio holdings in the portfolio which we believe could also be subject to takeovers in the coming months.

The portfolio remained fully invested in August with the sector allocations much the same as in previous months with 39% invested in technology, 12% in biotech, 28% in metals, 16% in energy and 5% in precious metals.

**Outlook** We believe that the majority of investors are failing to participate in the bull market and are often dismissing its existence because of low volume or some other irrelevant metric. Although the past several quarters have been disappointing for Canadian small cap equities, we currently see strong evidence of a turn in the market. The broader indices such as the S&P 500 and TSX Composite have performed strongly from the lows in late 2011 at which time we outlined our bullish prediction. It has been disappointing that Canadian small cap equities have lagged since that time. The TSX Venture index has experienced a prolonged downtrend since the spring of 2011, declining by approximately 50% over this period. However, during the summer months, prices stabilized and have recently achieved several strong weekly gains which has resulted in a break through of the 50 day moving average to the upside. The ongoing strength in the majority of commodities, which in many cases are now well above their summer lows, supports our optimistic view, given the high resource weighting of resource companies in Canada. Our conviction of a turn in small cap equities is supported from a fundamental point of view as their prices are also supported by low valuations in many instances.

With the technicals and fundamentals now in alignment, we see the potential for strong gains in Canadian small cap equities which have historically outperformed during periods of equity market recovery. This was the case in 1999, 2003 and 2009. It is our view that this time will be no different.



Regards,

Steven Palmer, CFA  
President and CEO

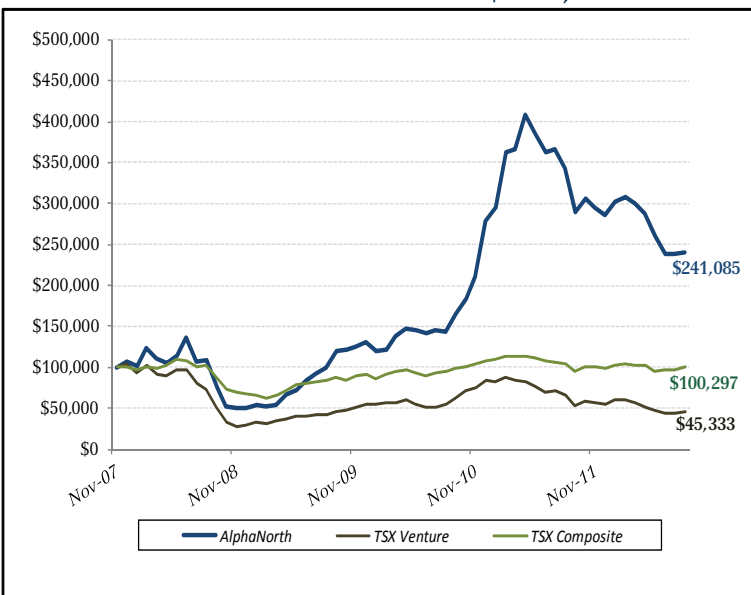
### Monthly Performance\*

	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%	2.0%	(2.4%)	(3.9%)	(9.9%)	(7.9%)	(0.1%)	0.9%					(15.6%)

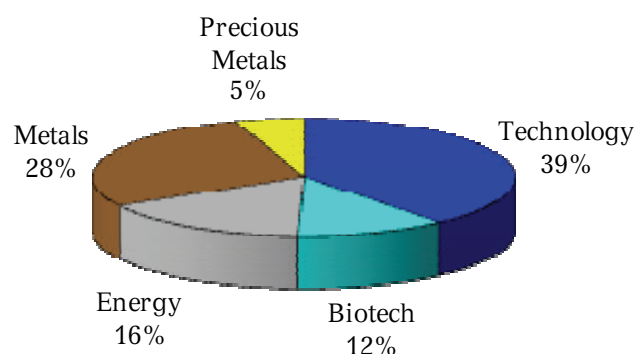
### Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite TRI
<b>Returns *</b>			
1 Month	0.9%	4.9%	2.7%
YTD	(15.6%)	(16.4%)	1.9%
1 Year	(29.8%)	(31.5%)	(3.6%)
2 Year	29.3%	(9.0%)	2.9%
3 Year	33.9%	1.8%	6.1%
Since Inception (annualized)	20.4%	(15.3%)	0.1%
Since Inception (cumulative)	141.1%	(54.7%)	0.3%
Best Month	31.9%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	59.6%	48.2%	54.4%
Standard Deviation	40.9%	34.7%	17.4%
Sharpe Ratio	0.47	(0.47)	(0.06)
Beta		0.95	1.73

### 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	~\$70 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 2011 Flow-Through LP, the AlphaNorth 2012 Flow-Through LP, the AlphaNorth Rollover Fund 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 2011 are unaudited. The inception date is December 1, 2007.