



AlphaNorth  
Asset Management

# FUND COMMENTARY

## AlphaNorth Resource Fund

May 2016

NAV  
Series A (ANF020) \$8.895  
Series B (ANF040) \$8.913  
Series F (ANF021) \$9.196

**Fund Review** The Fund performance was 1.9% in May. This compares to the TSX Venture index return of 0.5% and the TSX Small Cap index return of (0.5%).

After years of pessimism, we are finally seeing signs of life in the resource space. Reporters and newsletter writers have changed their headlines from "The Commodity Supercycle is Over" to "Commodities storming back into bull market". The weakened USD has led to outperformance in precious metals year-to-date, despite a modest decline in the sector during the month of May. It continues to be the leading component of the junior resource stocks by a wide margin. The resurgence in resources has not been limited to precious metals. Lithium stocks have also been very strong performers. Zinc, oil, and agricultural products are among several other commodities that have sharply rebounded from their lows. We believe that there is still plenty of upside given the length and magnitude of the downturn that we experienced compared to this most recent upturn.

We recently increased our gold exposure by participating in a unit deal for **Golden Predator (TSXV:GPY)**, a company that owns a past producing heap leach gold mine in Northern Canada. We purchased the unit for \$0.16, and the deal included a full warrant at a \$0.21 strike price for 2 years. The stock is currently trading above \$0.70. This is a great example of the torque that these junior mining equities can have in a bull run. Access to private placements like this one gives us an advantage because the warrants, which are already "in-the-money", contribute significantly to the value of the position. We believe this is only the beginning of the rebound in the junior resource space that we are well positioned to take advantage of the positive momentum going forward.

Current sector allocations are as follows: 21% in energy, 48% in base metals, 11% in uranium, 4% in diamond, 2% in iron ore, 13% in precious metals.

**Outlook** Negative sentiment towards equities has continued to be pervasive in 2016 despite the fact that several indices such as the S&P 500 have performed strongly and are now near record highs. There has been much in the recent financial press about the negative outlook of prominent hedge fund managers in the U.S. and the valuations for the major equity indices, which in some cases are above long term averages. Despite this, equities have continued to trade higher. It is important to note that in our view, valuations should be looked at in a relative context as compared to absolute values. With this perspective, there is very little incentive to move out of equities and into other asset classes such as bonds and real estate which currently offer record low yields accompanied with a high degree of risk. The current spread between fixed income yields and earning yields for equities has rarely been wider, resulting in a highly favourable risk/reward for equities. We strongly favour equities in the current environment and particularly Canadian small caps which, after a long period of underperformance, are now a top performing asset class in 2016 as reflected by the TSX Venture index's 29% return. Retail investors remain reluctant to embrace the equity rally both in large and small cap equities. **They will eventually capitulate and that is when the fun starts!**



Regards,

Steven Palmer, CFA  
President and CEO

### Monthly Performance (Series A)\*

	May	YTD	1 Year	2 Year	3 Year	Inception	Cumulative
AlphaNorth Resource	1.9%	87.1%	27.6%	1.2%	1.6%	(3.5%)	(11.1%)
S&P/TSX Venture	0.5%	29.0%	(2.1%)	(17.0%)	(11.0%)	(14.5%)	(40.8%)
S&P/TSX Small Cap	(0.5%)	20.3%	(2.3%)	(6.2%)	1.2%	0.3%	1.0%

### Key Reasons to Own This Fund

#### PROVEN LONG TERM PERFORMANCE:

- ◆ Management team has a 17.5 year track record of generating industry leading returns (16% annualized)\*\*

#### CAPITALIZE ON THE GROWING GLOBAL DEMAND FOR RESOURCES:

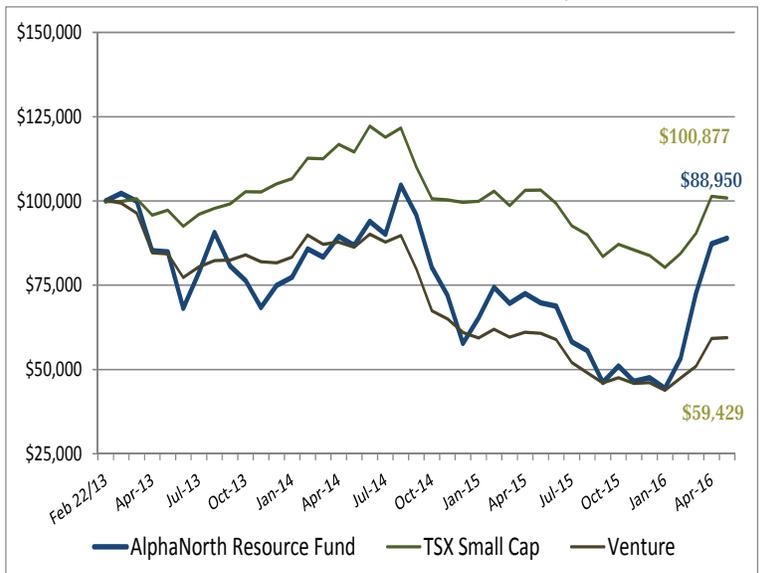
- ◆ Diversified exposure of Canadian resource equities with attractive risk/reward characteristics.

#### TAX-DEFERRED SWITCHING BETWEEN FUNDS:

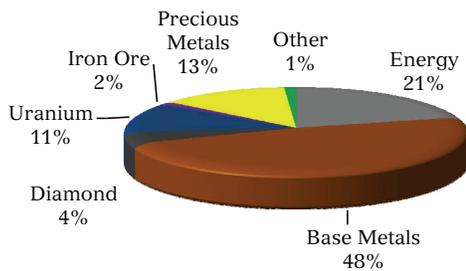
- ◆ AlphaNorth Mutual Fund Limited offers an additional fund class with tax-deferred switching:

⇒ **AlphaNorth Growth Fund (ANF010, ANF011)**  
Ideal for investors who are seeking exposure to a broad range of Canadian small cap equities.

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



## Current Sector Allocation



## Fund Information

<b>Lead Manager:</b>	Steven Palmer
<b>Inception:</b>	February 25, 2013
<b>Fund Codes:</b>	Series A - ANF020 Series B - ANF040 (rollover vehicle) Series F - ANF021
<b>Fund Details:</b>	RSP/RESP eligible \$1,000 minimum investment
<b>Sub/Redemption:</b>	Daily
<b>Lock-up:</b>	None
<b>Early Redemption Fee:</b>	2% in first 90 days (except Series B)
<b>Management Fee:</b>	2%
<b>Performance Fee:</b>	20% above TSX return High water mark (no reset)
<b>Trailer:</b>	1% (Series A and B only)
<b>Administration:</b>	State Street Trust Company & IFDS
<b>Legal:</b>	Stikeman Elliott LLP
<b>Fund Assets:</b>	\$2 million
<b>Account Enquiries:</b>	1-877-506-8122

## Monthly Performance\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2013		2.3%	(2.3%)	(14.8%)	(0.4%)	(19.7%)	15.6%	15.1%	(10.9%)	(5.4%)	(10.5%)	9.6%	(25.1%)
2014	3.2%	10.9%	(2.8%)	7.3%	(3.0%)	8.2%	(4.1%)	16.2%	(8.6%)	(16.3%)	(10.2%)	(19.8%)	(22.9%)
2015	13.0%	13.9%	(6.3%)	4.1%	(3.8%)	(1.4%)	(15.3%)	(4.6%)	(16.8%)	10.4%	(8.8%)	2.2%	(17.7%)
2016	(6.7%)	20.1%	36.2%	20.3%	1.9%								87.1%

## Investment Strategy

The **AlphaNorth Resource Fund** (the "Fund") is an **open-ended mutual fund**. The investment objective of the Fund is to generate strong returns by investing in Canadian resource companies that offer attractive risk-reward characteristics. The Fund invests primarily in junior and intermediate Canadian resource companies, and will evaluate industry and company fundamentals to evaluate investment opportunities which offer the most attractive risk-reward characteristics. AlphaNorth believes that superior long term investment returns are achievable by exploiting inefficiencies in the Canadian small to medium-cap universe through careful security selection. Fundamental analysis of companies is used in combination with technical analysis techniques, which have 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 Resource 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 and is a CIM.

## 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. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return for the Series A shares of AlphaNorth Resource Fund are the historical, annual compounded total returns including changes in share value and the reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any shareholder that would have reduced returns. For Series B and F returns, refer to the website at [www.alphanorthasset.com](http://www.alphanorthasset.com). Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The AlphaNorth Resource Fund commenced operations on February 25, 2013. 2013 year to date data is calculated from date of commencement of operations. \*\*Based on growth of investment in institutional small cap pooled fund from inception August 1, 1998, to August 1, 2007, and growth of investment in AlphaNorth Partners Fund from inception December 1, 2007 to the current NAV.