

# canadian hedgewatch

MONTHLY REVIEW OF HEDGE FUNDS & ALTERNATIVE INVESTING

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## SUPERIOR LONG TERM EQUITY RETURNS:

AlphaNorth Asset Management



\* INFLATION OR DEFLATION: WHICH RISK SHOULD YOU PREPARE FOR?  
\* EXCHANGE TRADED FORUM 2011 \* SECURITIZATION IN CANADA

# Superior Long Term Equity Returns: AlphaNorth Asset Management

Canadian Hedge Watch speaks with Steve Palmer, President and CEO, of AlphaNorth Asset Management about his investment strategy and current funds.



**Steven Palmer**  
President & CEO



Founded in 2007, AlphaNorth Asset Management is a Toronto based investment manager. AlphaNorth believes that superior long term equity 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 technical analysis with both a bottom-up and top-down strategy in the selection of investments offering the best reward versus risk opportunities. AlphaNorth manages the AlphaNorth Partners Fund which is a long biased small cap focused hedge fund. It also manages the AlphaNorth 2010 Flow-Through LP and the AlphaNorth 2011 Flow-Through LP. The firm is in the process of launching an open-ended mutual fund, the AlphaNorth Growth Fund. The objective of the AlphaNorth Growth Fund is to achieve industry leading long term returns.

**CHW** Give us some history on your background and what led you to start AlphaNorth Asset Management.

**Steven Palmer** After many years of working together at a major financial institution over which time we built an industry leading track record, Joey Javier and I decided that the time was right to start our own company. We wanted the independence and autonomy that our own business would provide. This was something that I have always wanted to do.

**CHW** There are lots of portfolio managers out there. What sets you apart from the rest?

**SP** At this stage, what sets us apart is our performance. We have been successfully managing Canadian small cap portfolios for about 13 years. I am not aware of anyone with performance anywhere close to what we have achieved over this period.

**CHW** With annualized returns of 47% since inception, Canadian Hedge Watch has ranked the AlphaNorth Partners Fund as the #1 performer under Highest Return in the following categories: 3 Month, 1 Year (Jan-May 2011 issues), and 3 Year (Feb-May 2011 issues). What is your investment process in getting there?

**SP** We combine both fundamental and technical analysis work. We try to identify the best opportunities which have limited downside risk while still having significant upside potential. In other words, companies with attractive risk versus reward. Also, our technical analysis work has added significant value over the years primarily as a sell discipline but it is also useful in identifying the most attractive entry points.

**CHW** Do you utilize a lot of leverage?

**SP** We do not often use leverage. In fact, over the last couple of years, we have used no leverage on average. Our positions typically have lots of upside potential so we do not require leverage to generate strong returns.

**CHW** Investors have emerged from the financial crisis of 2008 as more cautious and conservative. What should they know about your approach to risk management and how you measure risk?

**SP** We typically take a long term approach to our investments and do not focus on achieving positive performance every month. Investing in small cap companies is inherently volatile. Our view is that it is not prudent to run a totally hedged portfolio as this sacrifices significant returns over the longer term. We have demonstrated this to be the case over the past 13 years of managing small cap equities. We mitigate risk by adhering to investment limits on single positions as well as limits to investments in private and illiquid situations. We also maintain a diversified portfolio across many sectors whereas many Canadian funds are fixated on commodities and, in some cases, invest a significant portion of their portfolios in only several commodities. We also employ technical analysis which provides a sell discipline.

**CHW** Let's talk more about that; explain how you apply technical analysis to your sell discipline.

**SP** To a large extent, Portfolio Managers are presented with and review the same investment opportunities. However, we do evaluate many situations that are not widely known and the investment opportunity is limited to a select few funds. However, what really distinguishes managers in terms of performance is the timing of when positions are sold which can vary dramatically. This is the hardest part of the buy/sell process and our technical work has assisted us in exiting positions at the most opportune times.

**CHW** You mentioned that you manage a diversified portfolio. Can you describe the sector mix?

**SP** Unlike many Canadian funds which focus solely on resources, we intentionally maintain broader sector exposure. This lowers portfolio risk over the longer term. For example, the portfolio currently comprises approximately 36% technology and biotech. Our resource exposures are diversified comprising 28% energy, 25% metals and 11% precious metals.

**CHW** You recently announced a limit to new investors in the AlphaNorth Partners Fund which starts after June 30th, 2011. What made you reach that decision and how does that affect new and current investors?

**SP** Many investment management companies, particularly banks, measure success by how much assets they can accumulate. At AlphaNorth, we focus on returns. Given that the AlphaNorth Partners Fund invests primarily in micro and small cap equities, liquidity is more of an issue. In order to preserve the ability to generate the strong returns to which we are accustomed, we have indicated to investors since inception that we would take steps to limit new assets once the fund size reached \$100 million. Our investors appreciate this discipline.

**CHW** We hear that you are launching a new fund, the AlphaNorth Growth Fund. Tell us what the new fund is all about and how it differs from the AlphaNorth Partners Fund?

**SP** The new fund will be open to investors in the very near term. We are very excited about the potential of this new Fund. The AlphaNorth Growth Fund will not compromise the investment strategy of the AlphaNorth Partners Fund. The new fund will have a similar investment style and methodology but it will focus on larger companies, in the \$100 million to \$1 billion market cap range. This will provide better liquidity which is required with a mutual fund. I view the AlphaNorth Growth Fund as a small/mid cap fund whereas the AlphaNorth Partners Fund is more of a micro/small cap fund.

**CHW** What is your outlook on the small to mid cap Canadian equities marketplace right now?

**SP** We believe that the recent market weakness is similar to what occurred last summer with the debt concerns in Europe and slowing global growth. Canadian equities experienced very strong returns in the latter part of 2010 as these concerns diminished. We believe that similar concerns this summer are setting the stage for a strong rally in the second half of 2011.

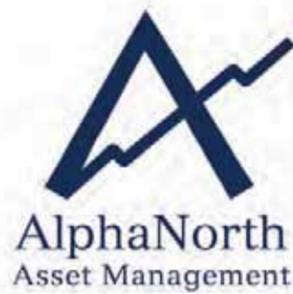
**CHW** The AlphaNorth Partners Fund has experienced exceptional returns since the financial crisis of 2008. What was your philosophy and strategy for managing during and after that difficult period?

**SP** 2008 was a difficult period to be a money manager. However, we did not change our strategy. During that period we streamlined the portfolio by adding to our favourite positions at greatly depressed prices. These were the companies in which we had the most conviction. At the same time, we sold some of our weaker names. Given that our strategy with the AlphaNorth Partners Fund is long biased, it excels the most in a bull market and has thus benefited greatly as equity markets have performed well since early 2009. We do try to limit downside risk during periods where we believe the markets are vulnerable by employing short positions and hedging market risk with ETFs.

**CHW** Where do you see AlphaNorth Asset Management in five years?

**SP** My goal is to continue to generate industry leading returns like we have accomplished over the past 3.5 years. If we can do that, our investors will be very happy. The magic of compound returns becomes very powerful over long periods of time. \*

*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 returns 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.*



# AlphaNorth Partners Fund

## 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. AlphaNorth combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics.

## Performance\*

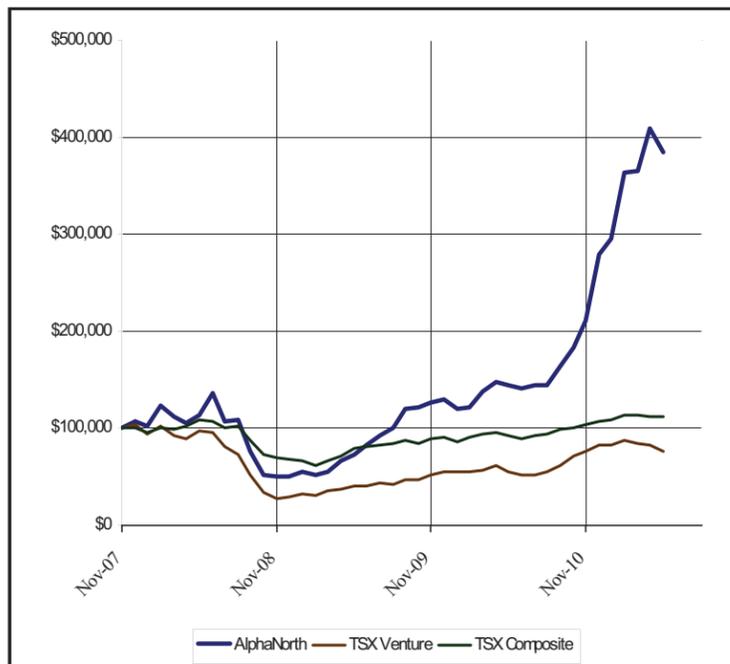
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												7.4%	7.4%
2008	(5.0%)	21.6%	(10.1%)	(5.6%)	8.1%	19.2%	(20.7%)	0.7%	(29.1%)	(31.9%)	(4.9%)	0.7%	(53.3%)
2009	9.0%	(3.5%)	4.0%	21.2%	9.0%	14.1%	11.5%	9.0%	19.1%	1.2%	4.1%	3.7%	160.6%
2010	(8.5%)	1.7%	14.0%	6.4%	(1.6%)	(2.7%)	2.6%	(0.4%)	14.2%	11.3%	15.4%	31.9%	113.6%
2011	5.8%	23.0%	0.9%	11.7%	(5.7%)								38.1%

## Fund Terms

<b>Inception</b>	December 1, 2007
<b>Fund Assets</b>	\$100 million +
<b>Lead Manager</b>	Steve Palmer
<b>Fund Type</b>	Alternative Strategies (Long biased small cap)
<b>Eligibility</b>	Accredited, Registered accounts (RRSP/RRIF)
<b>Management Fee</b>	Class A 2.0%, Class D 2.5%
<b>Performance Fee</b>	20% (high water mark with no reset)
<b>Minimum Investment</b>	\$150,000 (subsequent \$25,000)
<b>Subscriptions</b>	Monthly
<b>Redemption</b>	Monthly with 90 day notice
<b>Redemption Fee</b>	Class A—none; Class D—3% yr 1, 1.5% yr 2
<b>Lock-up</b>	None
<b>Auditor</b>	Deloitte
<b>Administration</b>	Harmonic Fund Services
<b>Prime Broker</b>	Scotia Capital
<b>Fund Codes</b>	<b>AAM100 (Class A), AAM200 (Class D)</b>

\*Returns presented are for Class A shares on a compound annual return basis stated net of all fees except for since inception returns which are cumulative. The information contained in this document is not a solicitation to sell any investment products and 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 subsequent to 2010 are unaudited. The inception date is December 1, 2007. TSX returns sourced from Bloomberg.

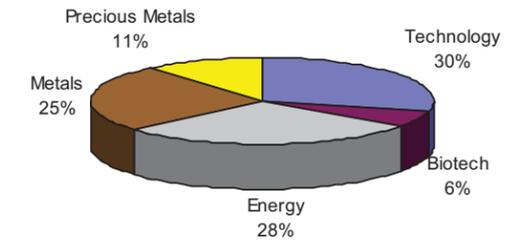
## Growth of Initial \$100,000 Investment



## Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite
<b>Returns *</b>			
1 Month	(5.7%)	(7.0%)	(0.9%)
YTD	38.1%	(8.5%)	3.6%
1 Year	165.6%	38.3%	20.4%
2 Year	130.6%	36.5%	18.5%
3 Year	50.2%	(7.6%)	0.8%
Since Inception (annualized)	47.0%	(7.4%)	3.2%
Since Inception (cumulative)	285.4%	(23.5%)	11.7%
Best Month	31.9%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	69.0%	54.8%	59.5%
Standard Deviation	44.6%	36.7%	18.8%
Sharpe Ratio	1.03	0.12	(0.22)
Beta		0.97	1.75

## Sector Allocation



## 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 and the AlphaNorth 2011 Flow-Through LP. The firm is in the process of launching an open-ended mutual fund, 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 return 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.

**Steven Palmer and Joey Javier founded AlphaNorth in August 2007 and have a superior track record of working together as a team since 1998.**

## 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 documents 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.