AlphaNorth Asset Management

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Maximizing Long-Term Returns

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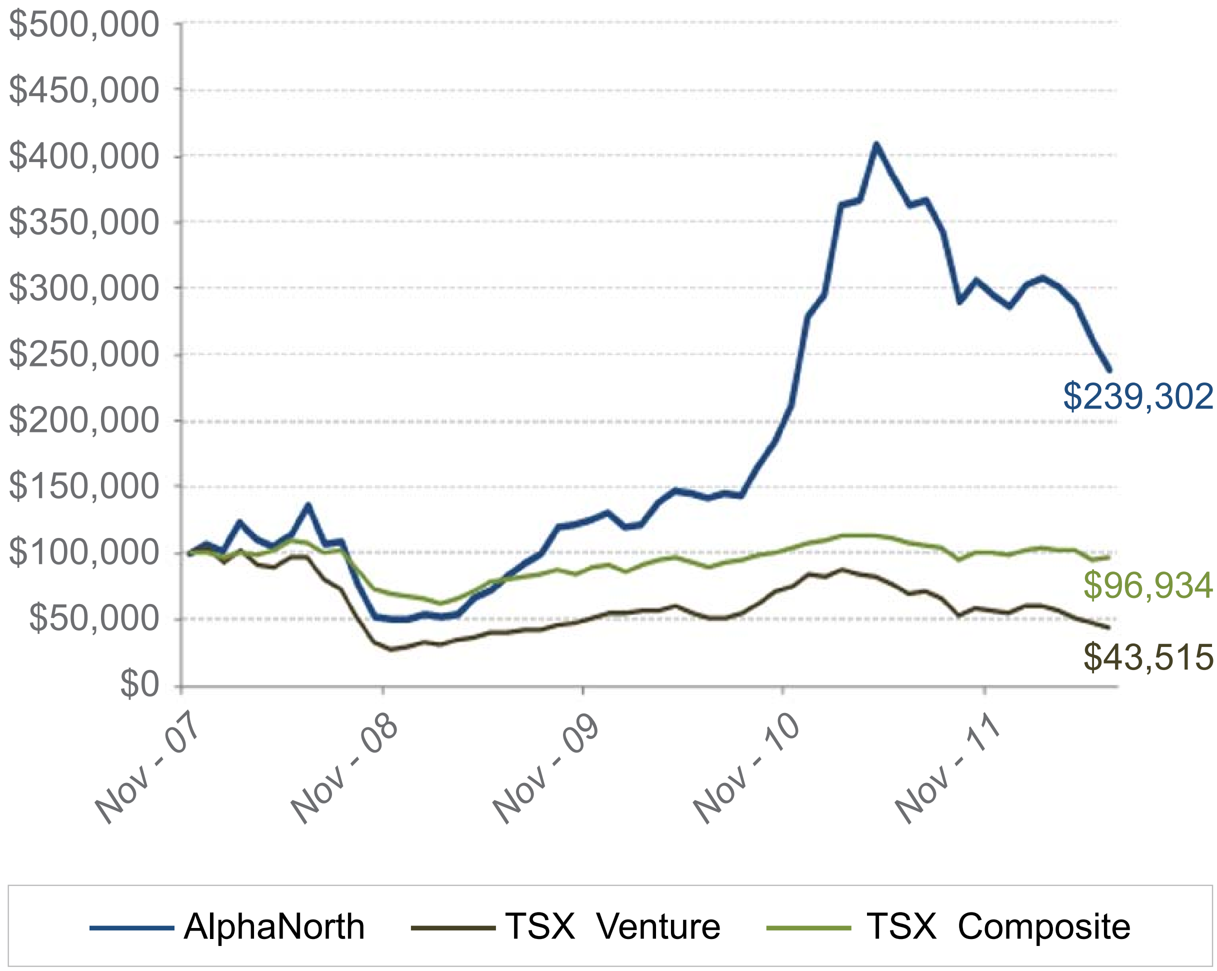
s by Balancing Risk and Reward



Performance Chart of the AlphaNorth Partners Fund

FOUNDED IN 2007, Toronto-based AlphaNorth Asset Management focuses on publicly traded Canadian small- and mid-capitalization companies. AlphaNorth believes in providing superior long-term equity returns through careful security selection and by exploiting inefficiencies in the Canadian small cap universe on both a long- and short-basis. To select the best risk vs. reward opportunities, the firm combines technical analysis with both bottom-up fundamental analysis and top-down strategies when selecting investments.

According to Chief Investment Officer Steve Palmer, “At the end of the day, the bottom line for successful investments is the earnings potential. We look at ‘early stage’ companies with some of them at the pre-revenue stage, and we assess the market potential of their product. We model how much money the company can make with this product within a few years’ time. So it’s about earnings relative to the valuation of the company.”

“We employ various investment techniques to generate strong long-term returns for clients.

We do bottom-up fundamental analysis and top-down analysis combined with technical analysis. This also involves meeting with management. The most difficult aspect of investing is identifying the right time to sell. Our technical analysis work assists us in determining the best time to sell and gives us discipline in regards to sale of the securities. This two-fold approach makes us fairly unique in the industry and has contributed to our industry leading long-term returns."

The proof that AlphaNorth's strategy works is the fact that today the firm manages a portfolio of more than $100 million worth of assets, with several hundred investors. AlphaNorth Partners Fund has an annualized return of 21 per cent since its inception. In comparison, during the same time period (December 31, 2007 to June 30, 2012) the TSX Venture Index had negative returns of -16.6 per cent. According to Palmer, "The vast majority of investment returns are a result of portfolio construction and asset allocation. As a long-term investor, you can't afford not to have an allocation to the best performing asset class over the long-term, small-cap equities." As a result of solid returns, the firm also received several awards, including two No. 1 spots with Barclay Hedge, No. 1 with Bloomberg (Brief), and No. 1 by the Canadian Hedge Fund Awards.

"We work to maximize long-term returns in a tax efficient manner. AlphaNorth takes a diversified approach to investing, so our portfolio offers a combination of investments in resources, technology, and life sciences. We identify securities which we believe have the most attractive risk vs. reward ratio. This involves identifying investment opportunities that have limited downside but lots of upside potential."

— Steve Palmer, Founder and Chief Investment Officer

AlphaNorth currently offers investors three investment products — AlphaNorth Partners Fund, AlphaNorth Growth Fund, and AlphaNorth Flow-Through products. The AlphaNorth Partners Fund achieves long-term capital growth through superior selection of primarily Canadian equity securities. The AlphaNorth Growth Fund is an open-ended mutual fund, focusing on Canadian small- to mid-capitalization equities. The investment objective of the AlphaNorth Flow-Through LPs are to provide a tax benefit of the investment by investing in a diversified portfolio of resource companies while also providing its limited partners with an attractive return.

After working together for nine years at AIG Global Investments, Palmer and Joey Javier founded AlphaNorth Asset Management in 2007 at the verge of dire times. To the question as to 'How did AlphaNorth battle the adverse market conditions?' Palmer said, "Our flagship fund, the AlphaNorth Partners Fund, employs a long biased strategy. Given the severe decline in 2008, we struggled. However, we stuck to our strategy and focused on our core names — similar to what we are doing now. When the market rebounded, the Fund performed extremely well. The worst thing we could have done was change our strategy at the bottom. Given what happened in 2008 – most people lost money no matter which strategy they used – investors are currently very risk-adverse and hold high levels of cash. Investors have also been redeeming equity funds and chasing fixed income investments seeking what they perceive as safe investments. Most of these investors will miss the first stage of this Bull Run which we believe has started. Once interest rates start climbing, many fixed income products and funds will start generating negative returns."

With a strong portfolio and solid long-term strategy, AlphaNorth intends to offer additional financial products. While the current focus is on small- and mid-cap companies, AlphaNorth plans to introduce funds in the future that will provide investors with less volatility and better liquidity. At the same time, the firm does not measure success by the size of its assets like many investment managers. Javier, founding partner, commented, "We focus on fund performance as a measure of success. A large fund size does not benefit investors, it's actually a detriment, making it much harder to generate strong returns. As a general rule, there is more potential reward investing in smaller companies as they have larger growth potential, and as the companies get bigger and bigger, the expected returns decline. Besides, just looking back at the recent bailout history of the U.S. banks and the present situation with RIM, the risks of investing in a diversified basket of small-caps are not necessarily higher compared to these so-called blue chip, large-cap companies." **CBJ**

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