GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary August 2011

GMP Diversified Alpha Master Fund (the "Fund") generated a negative preliminary net return of 1.16% for the month of August. The focus of the Fund during the month remained preservation of capital and management of volatility. Broader equity markets sold off strongly, especially early in the month. At the lows of the month, the S&P500 was down 15%, with selected global markets down by a wider margin.

In July's commentary, we highlighted how the Fund was positioned to manage the extreme volatility of the early weeks of August. Beta risk (equity market risk) was largely removed and we held a higher cash position than at any other time in the Fund's history. This accomplished our goal of immunizing short term market volatility for unit holders. Given the uncertain conditions as the month progressed, we did not see compelling risk adjusted opportunities to redeploy capital. As reflected in the price behavior of the equity and credit markets worldwide, uncertainty remained on the both economic horizon and sovereign crisis in Europe. Never before had the Dow swung 400 points on 4 consecutive days. Extraordinary times to be sure.

It is worthy to note that at the low points of the month, the Fund was down 1.72% or roughly 1/8th of the broader equity market measured by the S&P500. This was well within the Fund's risk parameters and consistent with our overall Fund strategy.

On the economic front, the U.S. and European economies continue to stall. As we write this commentary, President Obama just delivered his $450B jobs plan at a joint session of Congress. The plan includes tax cuts, additional state aid and spending on infrastructure. At the same time, Fed Chairman Bernanke's speech disappointed markets by having no specific measure included in it, other than to say that at the September 20 and 21st meeting of the Fed, they will discuss additional measures aimed to stimulate the economy.

During August, the Equity Strategy was down. Correlation across sectors, and indeed across entire asset classes, increased to such a degree that losses were incurred in most market sectors. Economically sensitive sectors, such as energy, were hammered as defensive sectors and gold performed relatively better. (It was this extreme outperformance of gold that saw the TSX have relatively strong performance during the month). Our Aggressive sub-strategy sustained looses across a number of names including Lundin, Xinergy, C&C Energia and Athabasca Oil Sands. Our Defensive book, by contrast, performed well due to selected gold exposure and a modest gain in Mead Johnson. As expected, selected shorts performed well during the month, including Investors Group, Bombardier, Game Stop and Intel.

As a result of our reducing exposure through the early part of the summer, the Credit strategy was able to withstand the turmoil experienced by the credit markets in August. For the month, the strategy was down small, principally due to corporate bond positions. U.S. High Yield bonds were down 4.0%, the worst monthly performance since November 2008 when they were down 8.4%. Spreads on the HY 16 Index widened 135 bps during the month to 630 bps. In response to the extreme fear in the markets, investors looked to raise cash. This reaction lead to material redemptions across all credit markets in August as High Yield, Investment Grade, and bank loan mutual funds registered significant outflows of $4.8 billion, $2.0 billion, and $4.8 billion, respectively. At their widest, certain HY bond indices were down approximately 10% in the month. This hard selloff should create opportunities in the credit space. Given our cash, we are well positioned to take advantage of these opportunities, at the right time.

Quantitative investing was up 0.77% in August. Tactical trading had a solid month gaining 1.53% on allocated capital. The positive performance came from the following: long gold, short Russell2000, both long and short in the S&P/TSE60 and the S&P500. The volatility in the markets worked out well for tactical trading but did not for our volatility strategy as we had a small position that was short options in the S&P500, S&P/TSE60, and gold. As we ended the month, our systems were suggesting conservatism with small shorts in equities where we will add on weakness and a long gold position with tight stops. We are selectively selling options but will keep the overall positions very small.

We entered September with a continuing defensive posture and high levels of cash. We seek opportunistic areas to deploy that capital but remain focused on protecting capital during periods of extreme uncertainty.

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