GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary December 2011

The Diversified Alpha Master Fund (the "Fund") was down 1.24% in the month of December. Since inception, the Fund is up 24.16% versus the S&P 500 (-8.22%) and S&P/TSX (-13.81%). Significant volatility continued throughout December to wrap up an incredibly challenging year in the markets.

For December, we managed the Fund with the same focus and priority as we have for the entire year, making capital preservation and management of volatility top priorities. On a relative basis, December finished the year in a lackluster fashion. The TSX was off for the month, capping a brutal year for the index. From Q2 through to year end, the TSX was down over 15%. As a whole, the European markets were also down substantially for the year. The S&P 500 was the outlier, scratching its way back to flat from being down over 15% at its lows. Cyclicals led this decline, which is an interesting contrast to a more "normal" (non-deleveraging) mid-cycle economic picture wherein cyclicals typically are the drivers of return. Volatility (as measured by the VIX) finished the year less than half of where it was in August. The asset class to own throughout the year was long term U.S. Government Bonds, which also had a strong December. The wall of money looking for safety turned first to U.S Treasuries and then to investment grade and then finally to non-investment grade credits over the last several months. 10 year U.S. and Canadian government debt are now trading at interest rates well below their respective historical levels.

The economic data in December remained mixed. Of concern, was the Chinese economy which continues to see its PMI below the "50" level, indicating contraction. With a weak Chinese economy, the situation in Europe and the employment and housing picture in the U.S. remaining poor, there are few opportunities that provide the appropriate returns for the underlying risks.

	Price Performance (% Change)			
	1 Month	*3 Month*	*6 Month*	*YTD*
S&P/TSX Composite	-2.0	2.8	-10.1	-11.1
S&P 500 Index	0.9	11.2	-4.8	0.0
Dow Jones Industrial Average	1.4	12.0	-1.6	5.5
Nasdaq Composite Index	-0.6	7.9	-6.1	-1.8
Bloomberg Euro 500	1.8	7.7	-11.1	-12.4
German DAX	-3.1	7.2	-20.0	-14.7
MSCI EAFE	-1.0	2.9	-17.3	-14.8
MSCI Emerging Markets Index	-1.3	4.1	-20.1	-20.4
DEX Universe Bond Index	1.7	2.1	7.3	9.7
DEX Long Term Bond Index	3.7	4.9	15.3	18.1
DEX Mid Term Bond Index	1.8	2.0	7.9	10.9
DEX Short Term Bond Index	0.5	0.5	2.8	4.7

Source:Bloomberg, as at December 31, 2011

Performance globally, as the chart to the left illustrates, was challenged through 2011. The volatility experienced in both the credit and equity markets throughout the year was the market's response to the global deleveraging that began with the bank credit crisis in 2008. Since March, given the uncertainties in Eurozone and the global economic weakness, we kept capital very much "risk off", focusing instead on preserving capital by avoiding the volatility of the global equity markets. We remain confident that our disciplined approach will continue to yield superior risk adjust returns over time, consistent with the performance of the Fund since inception.

As we shift our focus forward, from a macro perspective, the global deleveraging still has a long way to go. In 2012 we will continue to see significant issues emanating from Europe which will continue to stress policy makers to find solutions to their long term debt problems. Market volatility will continue to be greatly impacted by the markets reaction to the decisions of these policy makers.

That being said, three to fifteen month rallies are quite common during deleveraging cycles. These periods are marked by lower volatility and steady upward grinding markets. As of the end of December, our risk models indicated that this was a distinct possibility. As such we have begun to move capital from cash to both the credit and equity markets. If this most likely scenario plays out, we will continue this trend as well as begin to build three month put option positions to protect against potential macro surprises. As has been stated in this forum, during deleveraging cycles, you need to make your money when it is safest and keep as much as you can during the risky periods.

Jason Marks
CEO, CIO and Managing Partner
jmarks@gmpim.com or 416-943-6132

Kevin Barnes
President and Managing Partner
kevin.barnes@gmpim.com or 416-941-6560