GMP Investment Management

GMP Diversified Alpha Fund

Monthly Market Commentary January 2010

Overall Fund Commentary

The Alpha Fund generated a net positive return of 1.69% for the month of January. The markets experienced a bifurcation in results between equity and credit performance during the month. The strength in the equity markets early in the month reversed due to concerns over the strength of the U.S. economic recovery, the Chinese government looking to slow down their country's growth and sovereign risk issues emanating out of Europe. The global equity markets sold off hard over the last two weeks leaving the S&P/TSX 60 and the S&P 500 down 5.55% and 3.70% respectively. Notwithstanding the selloff in the equity markets, credit markets generated solid performance during the month as investors looked for a more secure place for capital.

Equity Strategy

The Equity strategy was slightly positive in January. The positive performance was generated primarily early in the month from the sale of certain positions, especially in the materials space. A focus on the natural gas sector generated alpha during the month. Short positions in Canadian financials, which were covered during the month, also generated positive returns. As the month progressed, we actively reduced exposure and increased hedges as we became increasingly concerned regarding the unique risks of the market.

Credit Strategy

The Credit strategy generated strong performance in January from each of the corporate bond, Canadian ABCP and distressed debt strategies. However, we remain quite concerned with respect to the potential impact the global sovereign risk issue will have on the credit markets. As such, we elected to reduce risk in the credit strategy (primarily from the long side) while we wait for better clarity on the situation.

Quantitative Strategy

The Quantitative Investing strategy had positive performance in January. Modest gains were made in the Relative Value, Special Situation, Volatility and Warrant Arbitrage sub-strategies. Tactical Trading on both the S&P/TSX60 and the S&P500 posted slightly negative results. Throughout the month we were long 60%, short 30% and flat 10% of the time. Our average notional exposure was quite low, at the lower end of what is typical for our investing process. This behavior is typical at market "turns" such as large corrections to an uptrend. With the substantial sell-off experienced during the later part of the month, our short term signals turned bearish for the first time in several months.

Risk Management

Our risk management process identifies periods in the markets, such as where we are today, when the level of risk is elevated. This causes us to dynamically adjust our risk/return assumptions. As we exited January, the sovereign risk issue remained at the forefront of our concern. As such, the Fund remained positioned for a continuation of the downward trend in the markets. We actively reduced exposure and added protection to the portfolio in the event the market experienced an accelerated retrenchment. The net result is a more cautious approach in the near term and, over the long term, results in lower fund volatility and capital preservation.

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