



# GMP Diversified Alpha Fund

## Monthly Market Commentary March 2013

The Diversified Alpha Master Fund (the "Fund") ended March down 0.07% (preliminary), net of all fees and expenses. This brings the inception to date return to +31.04% (preliminary and net of fees). Through March, European politics continued to drive headlines as did weak volume and tepid forward motion in U.S. equity markets.

Eyes turned to the tiny island of Cyprus during the middle of the month as the government imposed a tax of 5.8 Billion Euros on bank deposits. This "tax" affected everyone with money deposited at banks in that country. On news of this announcement, Cypriots headed to their local banking machines to withdraw their funds, only to find banks and ATMs closed with limitations imposed on withdrawals, even once the banks reopened on March 28th. Lineups, frustration and media headlines ensued. To properly "size" the issue, the population of Cyprus is roughly the same as that of Dallas, Texas, and not usually internationally significant for news flow. While not significant in population terms, the worry for risk markets worldwide was simple...if this government could impose a tax on bank deposits to help bail that country out of debt, would other Euro countries follow behind? The reaction as seen in risk markets demonstrated that while Cyprus is small, this action of seizing depositors money is potentially very troubling, especially if other countries adopt this new "model". U.S. treasuries soared, S&P 500 futures oscillated and the Euro/USD plunged to 1.28, the lowest exchange rate since last November. Gold and silver rose and Portuguese, Spanish and Italian bond spreads all spiked. Outside of U.S. equities, March exhibited a risk-off reaction worldwide. The fact that the IMF condoned the Cypriot "tax" on depositors by month end had market participants asking whether Cyprus is in fact a special case, or a blueprint for future action by other countries? Indeed a worrisome thought.

Notwithstanding the news from Europe, the S&P 500 moved above its all time highs by month end. This performance was driven by defensive names and sectors such as, health care and utilities. While impressive in price performance, the market moved ahead on very weak volume and risk assets were sold on higher volume by month's end. The late month selling included high-yield and investment-grade credits and highlighted the divergence in prices between equities and credit, suggested that the S&P ended the month "rich" by around 20 points. Risk markets ended the quarter off a "QE steroid injection" that propelled prices forward for the first quarter. To have risk markets making highs off of money printing and monetary intervention does NOT inspire confidence for additional risk investments as we contemplate the second quarter of 2013. Further, and evidence to what some safe money was doing, 10 year U.S. treasuries rallied since mid-March, against unchanged for the S&P 500.

Much effort continues to try to find substance in the equity price rally this year and to draw a parallel between the price moves on the broader market and the somewhat mixed economic backdrop. The February Chicago PMI tumbled during the month from 60.2 to 53 which was the most since May 2011. Production posted the weakest print since September 2009, order backlogs had its ninth month of contraction. Inventories had their 4th contraction in the last six months. As discussed in last months commentary, U.S. sequestration took effect March 1. As a result, U.S. GDP will contract 1.9% in 2013 when combined with tax increases from the beginning of the year. We are mindful of the effects of this activity, of the frothy low-volume equity market performance and of the fragile economic foundation upon which all of this is built upon. As such, we are keeping our hedging active.

As we have mentioned in the last couple of months, these markets are a challenge to earn positive risk adjusted returns in multiple asset classes. Barclay's index of high yield bond total returns is now 63% higher than its pre-crisis peak (yields now at a 5.56%, the lowest in over 25 years). Total returns for the S&P 500 are +12% over the same period. Both of these numbers are astronomical when compared to the state of the world economy and the cracks in the major economies of Europe, China and the U.S. Credit continues to provide opportunities only on the back of detailed credit analysis. Canadian ABCP continues to offer superior returns given the very low risk that is present in that strategy. We are steadfast in our commitment to our mandate to protect capital and manage volatility and continue to have the Fund positioned as such. We continue to search for positive sources of return, while protecting our investors to risks of capital depreciation or levels of volatility outside of the Fund's target.

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*Performance data is compared to the S&P/TSX Composite Total Return Index and the S&P 500 Index, are the standard benchmarks for North American equity strategies in Canada. The composition of the Master Fund's portfolio will significantly differ from the Index due to the investment strategy employed by the Master Fund's Investment Manager, GMP Investment Management L.P. ("GMPIM"). Please see "Investment Strategies" in the Confidential Offering Memorandum for more details. The Investment Manager is registered with the Ontario Securities Commissions ("OSC") as an Investment Fund Manager ("IFM"), Portfolio Manager ("PM") and Exempt Market Dealer ("EMD") in respect of the pooled fund we manage. As such we are placing you in securities of a related issuer. his communication is for information only, and is not to be construed as an invitation to make an investment in GMP Diversified Alpha Fund (the "Fund") nor does it constitute a public offering to sell the Fund or any other products described herein. Applications for the Fund will only be considered on the terms of the Offering Memorandum. Past Performance November not be repeated. GMP Investment Management L.P. is prepared to engage as an Adviser or Exempt Market Dealer in respect of securities of its related issuers and, in the course of distribution, of securities of connected issuers, but only to the extent from time to time permitted by applicable securities legislation or rule, policy, directive or order of any securities regulatory authority.*



**Investment Management**  
Maximizing Return, Minimizing Risk

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