GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary May 2010

The Alpha Fund generated a net negative return of 1.05% (preliminary) for the month of May. This was against a backdrop of a dramatic jump in volatility and negative global market performance. The MSCI World Equity Index lost 9.91%, the S&P 500 lost 7.99% and the VIX exploded to 45 in May from 15 in April. The Credit portfolio made money, offset by moderate losses in our other strategies. As reflected in our April Commentary, we took advantage of inexpensive index option premium in April and purchased a material position in a Russell 2000 Put Spread. We held that position through May, which helped to insulate the portfolio from systematic volatility. Within our Protection and Index books, this provided positive hedge returns to offset the negative performance in the Equity books. That said, we were very cautious across all strategies in May and did manage to protect capital from the ravages of the market. We should also take note of the bizarre events of May 6th when we saw the "Flash Crash" wipe 1000 points off the Dow in a matter of minutes. We still await the explanation of why that happened. Given all that May presented, we judiciously reduced capital deployed in the fund so that we were net 30% invested for the majority of the month. This proved to be the right course of action to defend against losses and to decrease volatility for unitholders.

Equity Strategy

The Equity Strategy return was slightly negative for the month, as the market offered few opportunities profit, either from the long or the short side. The S&P 500 had several –200 point days and several +200 point days. We used the positive days to effectively decrease our exposure to our higher beta names. This provided capital to redeploy to some of our favoured defensive names such as CVS, Telus, Pepsi, Pfizer, Oracle and BCE. These names offer high levels of liquidity, excellent fundamentals and convincing valuations, although in May, even these companies suffered negative returns.

Credit Strategy

The Credit Strategy generated strong positive performance again in May. Spreads continued to widen during May. In the US, spreads widened by 130 basis points. The Focus of concern continued to be from Europe. The Euro continued its free-fall losing over 7% to the USD, notwithstanding the EUs effort to support the Euro. Eyes continued to look to China as to whether that country would sell their Euro holdings which weighed on the Euro valuation even further. We continue to trade opportunistically in our ABCP holdings which provided continued profit for investors.

Quantitative Strategy

The Quantitative Investing Strategy generated small negative performance in May. Volatility was the big story that ended April and accelerated throughout May. The Protection Strategy profited along with our Volatility and Warrant Arbitrage books. With the overall directionless and sideways moves during the month, our Tactical Trading book was challenged and lost money. We decreased the capital allocation overall to the Quantitative Strategy through the month as directionless markets made the risk adjusted profit potential very modest and not worth taking the risk. Throughout the month we were long 55% and short 45% of the time. Our average notional overnight exposure on the long side was 5% of the total capital allocated and 4% on the short side.

Risk Management

Notwithstanding the strong second quarter profits reported by US Corporations, the negative sentiment caused by bleak Macro and European economic developments led us to continue with our strategy of lower overall Beta exposure to the equity market. We will cautiously prepare to redeploy capital if/as conditions improve during June.

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