GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary May 2011

GMP Diversified Alpha Master Fund (the "Fund") generated a positive net return of 0.31% for the month of May. The Fund, since inception, has earned a return of 31.4% (net of fees).

Our conservative positioning within the Fund continued through May. Economic data was noticeably weaker through the month. The new orders component of the ISM purchasing managers index dropped more than 10 points, the single largest monthly decline since September 11, 2001. Employment data continued to be weak in the U.S., with jobless claims rising after three months of beating expectations. That said, some data continues to suggest that we are experiencing a mid cycle slowdown. Historically, there has been only one period where a recovery from a market bottom has been less than two years. That occurred in 1981 and was a policy induced setback. Further, corporate profits continue to be strong. However, equity markets have reviewed this mixed bag of data with increased volatility. In local currency terms, the S&P/TSX, the S&P 500 and the MSCI all lost 1% or more during May. In Canada, small cap stocks and growth stocks in the energy, information technology and materials sectors all incurred negative returns. Government bonds in both Canada and the U.S. rallied as investors set aside their inflation concerns. The sovereign debt situation in Europe continued to be newsworthy as did the data from Japan that indicated that the March natural disasters had a significant negative impact on global GDP during the quarter.

Equity Strategy

The Equity strategy generated negative returns in May, consistent with the broader equity markets. While company revenues and earnings came in strong for the ninth consecutive quarter, broader economic data was disappointing. Notably, global leading economic indicators declined implying slower growth for the next several months. Oil prices declined on the month; however, even at these reduced prices, the share price of oil companies does not reflect their intrinsic value based on current oil prices. Finally, Japan moved into recession and the Greek debt situation remained unresolved. These factors will continue to weigh on the market in the coming months.

Credit Strategy

The Credit strategy generated positive returns in May. Positive performance was principally driven by the Fund's continued exposure to the restructured Canadian ABCP.

By the middle of May, the credit markets were starting to substantiate the recent sell off in equities. As a result of a continuing decay in risk sentiment, CDS swap and cash spreads among corporate bonds have come under increasing pressure. Within the high yield market, money flows remained relatively strong during the first part of May when sentiment began to roll over. However, during the following two weeks, as the pace of uncertainty began to build momentum as troubles in the euro zone and evidence of a slowing in growth within the U.S. economy became increasingly pronounced, money flows took a noticeable hit.

Quantitative Strategy

Quantitative Investing was modestly positive in May. The Volatility strategy made money being short options in each of the Gold, S&P500 and S&P/TSX60. Despite the increase in volatility seen in the markets, we continue to be able to hedge our option positions below the levels the options were sold. Tactical Trading was flat on the month as gains in the short S&P/TSX60 and long gold positions were offset by small losses in the other areas. As May ended, our short term models suggested a continued long gold position and a very defensive equity exposure where we will wait to buy strength or sell weakness.

Risk Management

Our view on risk continued to be much the same as in April. The Fund's cash position remains high at 35% of allocated capital. As we look out over the next 3 to 6 months, we see the equity markets remaining to be choppy and sideways. As such, we will selectively deploy capital in liquid positions where we see appropriate risk adjusted opportunities.

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