GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary September 2011

The Diversified Alpha Master Fund (the "Fund") lost 2.09% during September. This brings the Fund's rolling 12 month performance to 6.5% and our since inception performance to 26.9% as compared to –6.7% and –15.6% for the S&P TSX over the same periods.

September finished off a difficult quarter in global capital markets with key indices falling double digits, including the S&P 500 which was down 14% for the quarter, 7% during the month of September alone. The Nasdaq was down 13% for the quarter and 6.4% in September. Finally, the TSX was just as bad at -8.7% in September and –12.0% for the quarter.

The Equity strategy was down on the month, but outperformed the broader benchmarks due to its much lower level of market exposure. The month saw continued high levels of volatility and the S&P 500 saw 5 moves in excess of 3.7%.More pro-cyclical sectors such as energy, materials and industrials, led the market to the downside. U.S. financials also continued to be very weak. Market breadth was very weak on the month as positive returns were generated by only 12% of the names in the S&P 500 Index and 18% in the S&P TSX index. As a result, opportunities for upside profits were very limited. Despite mixed economic data, the market's weakness can be attributed to the snail-like progress towards a solution to the European sovereign debt/banking crisis and the lackluster response to the Federal Reserve Board's "operation twist". Due to the increased risk of a recession, the managers have continued to increase liquidity in the Fund and have materially lowered overall equity allocation.

High Yield bonds backed up over the last quarter as well with major high yield indexes finishing September yielding in excess of 9%. Compared with 5 year treasuries that are under 1%, high yield investors are now starting to be compensated for serious default scenarios, whether they emerge in the near term or not. The high yield markets were down 3.6% in September and 6.3% for the quarter. This was the worst quarterly decline since the last quarter of 2008. Notwithstanding companies exhibiting strong balance sheets, the Euro zone financial crisis led to the negative performance across the credit markets. In addition, the new issue market decreased significantly in September as lenders have pulled in their risk appetite until there is some certainty in the markets. In spite of the above, Credit strategy was positive in September, benefiting from trading in the Canadian ABCP strategy and from gains in the corporate bond strategy.

Quantitative investing was down 2.22% in September due to losses experienced in tactical trading from gold and the S&P TSX60. The dramatic 20% correction experienced in gold left our long signals exposed. We have been biased long gold all year. The volatility in the S&P TSX60, having worked for us in August proved difficult in September. Positioning heading into October continues to be conservative.

Through this difficult month, the Fund performed at the low end of our historical monthly return range. Although the Fund remained defensive with cash at historically high levels, the Fund lost money principally as a result of a number of uncorrelated strategies experiencing losses simultaneously. In addition, given our low exposure to the market, the Fund purchased call options on the S&P500 to gain long exposure with known downside risk. These options expired worthless.

These are unprecedented times, and our allocation is even more defensive as we enter October. Until it becomes clear where reasonable risk-adjusted returns can be made, our team believes that playing defence is the most appropriate course of action to pursue. As a result, our Credit, Equity and Quantitative allocations remain low and our risk taken within those strategies remains minimal. We are encouraged by the fact that we are poised well to take advantage of opportunities in the coming weeks or months. In the meantime our strategy of capital preservation and management of volatility remains our principal focus.

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