



GMP Diversified Alpha Fund

Monthly Market Commentary April 2010

The Alpha Fund generated a net positive return of 1.41% (final) for the month of April. The Credit and Quantitative Strategies within the Fund were positive for the month, with overall portfolio returns moderated by a small loss in our Equity Strategy. While the Greek led, European sovereign risk concern dominated headlines, for the most part, North American corporations were announcing positive quarterly returns. The equity markets were ignoring the signals emanating from the credit markets as spreads widened through the end of the month. As we write this letter, the market is still absorbing the news related to the massive EU sponsored bailout of Greece. We continue to believe that many parts of the equity universe are overbought, while others offer significant reward/risk opportunities.

Equity Strategy

The Equity Strategy return was slightly negative for the month. We continued to reduce positions in names with lower relative liquidity, prioritizing our longer term conviction names, including Suncor and Telus. We did make money in our Special Situations book, but gave back return in several core positions. Our capital allocation to the Equity Strategy was reduced throughout the month as we re-positioned the capital to add to more liquid names in light of increased market uncertainty.

Credit Strategy

The Credit Strategy generated strong positive performance again in April. On July 1, 2009, the Fund purchased a sizeable secured bank loan position in a Canadian technology firm for 24 cents on the dollar from a US investment bank. The loan was paying current interest at LIBOR + 7%. In December 2009, the firm announced plans for an IPO in the spring. Through the first 4 months of this year, the Fund had been selectively trading out of the position. In April, coincident with the IPO, we sold our final piece of the loan at 94.5 cents on the dollar. The trade generated a return of 3X on its initial investment. Although these types of trades are rare, the Fund has the depth of talent and expertise to take advantage of them when they do appear. At this point in the market, within the Credit Strategy, we continue to favour the risk adjusted return potential from the restructured Canadian Asset Backed Commercial Paper.

Quantitative Strategy

The Quantitative Investing Strategy generated positive performance in April. Volatility was the big story through the month of April. We started the month with the VIX trading near 52 week lows. By the last week of the month, the markets had turned choppy and volatility had increased. We made money in Tactical Trading, our Volatility Arbitrage and our Warrant Arbitrage strategies, mitigated by a small loss in the Relative Value book where we were long large cap and short small cap equities. We believe being selectively long options creates a good opportunity to generate alpha as we head into May. The Tactical Trading strategy was very active in both the S&P/TSX60 and the S&P500. Throughout the month we were long 82% and short 12% of the time. Our average notional overnight exposure on the long side was 32% of the total capital allocated and 8% on the short side. The Systematic Portfolio Trading group generated strong performance in April. The portfolio's bias was slightly long with sector weightings and factor loadings both contributing to the positive returns.

Risk Management

The uncertainty introduced by the European crisis caused the Fund to buy substantial option positions on the Russell 2000. Until there is clarity in the market, the overall Beta exposure to the equity market will be lowered through the risk management process.

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