GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary December 2010

GMP Diversified Alpha Master Fund (the "Fund") generated a positive net return of 3.10% for the month of December. We continue to report the performance for the Master Fund on our Monthly Market Commentary, although as previously noted, we show share class returns on the Monthly Newsletter.

In 2010, the Alpha Fund delivered against its mandate of generating superior risk adjusted returns for its investors. The Fund generated an annual return of 12.27% (net of fees) with a Sharpe Ratio of 2.76 (as compared to 0.71 and 0.88 for the S&P 500 and TSX 60 respectively). As we enter 2011, we continue to remain focused on capital preservation, volatility management and return generation within the Alpha Fund.

December was a great month for equities, which was the opposite for the interest rate markets. In the last two months of the year, U.S. 10 year bond yields have risen from 2.5% to 3.5%. This has been a big sell-off for bond investors, who have sustained losses during November and December that would have effectively eliminated their interest income for the year. The slow turnaround in the U.S. economy in conjunction with the continued spending of the Federal Reserve are to blame. While this has really punished Treasury investors, this same activity has given legs to the global equity markets. For the December FOMC meeting, the Federal Reserve continued its focus on employment and inflation. In Canada, overnight rates were left unchanged from the Bank of Canada during the month.

Equity Strategy

The Equity strategy generated strong positive returns that materially outperformed both the S&P TSX Index and the S&P500 for the month of December. After a period of consolidation in November, the S&P 500 staged a strong rally that started on December 1st. This 6.68% rally began in response to a strong Purchasing Managers Index that was supportive of a continued recovery in U.S. economic data. The S&P/TSX Index continued its trend of strong monthly performances by gaining 4.1%. Both indices managed to set new cycle highs in December. Resurgent OECD growth coupled with continued economic growth in the emerging markets drove performance in the energy, materials and industrial sectors that lead index performance. The S&P 500 also benefitted from a rebound in the financial services sector as bank stocks responded to the stabilizing U.S. economy. Both indices also saw a strong rebound in market breadth, with over 87% of names showing positive returns in each market. This breadth is a sign that the market strength should prove to be sustainable. As noted above, strong leadership was provided by pro-cyclical sectors and having exposure to these sectors was important to performance. Given this sectoral backdrop and our pro-cyclical bias, the gains in the Equity book were primarily driven by our energy and materials holdings. Additionally, returns in the Equity book were bolstered by strong stock selection in financials, industrials, utilities and information technology. The energy sector returns were driven by strong returns in Aurora Oil & Gas, Xinergy, Ithaca Energy and Athabasca Oil Sands. Strong performers in the materials sector included Banro, Alderon Resource, Quadra FNX and Consolidated Thomson. Non-resource performers included Foster Wheeler, Canaccord Financial, Bank of America, Oracle and Just Energy. During the month, the Fund maintained a high net exposure to pro-cyclical equities with low valuations.

Credit Strategy

The Credit Strategy generated positive performance in December . Our decision over the last few months to reduce exposure to corporate bonds, while increasing the Fund's position in the Canadian ABCP was once again rewarded in December. Given the significant inflow of capital into the high yield markets and the continued improvement in corporate balance sheets, credit spreads have continued to narrow to their lowest level since November 2007. At this time, we see this trend continuing into 2011. However, on a macro level, there remains much danger in the credit space, especially with respect to European sovereign risk. We continue to see certain corporate yields trading lower than European sovereign debt which puts us in a new paradigm through which we must manage cautiously.

Quantitative Strategy

The quantitative strategy generated solid performance in the month of December. Tactical trading was profitable on the long side in each of the S&P/TSX60, S&P500, and Gold. With the rally in the markets, the short signals showed losses that were more than offset by the longs. The volatility strategy was also positive as volatility levels came off and we were able to effectively delta hedge the sizable upward moves in the markets. Shorter term signals continue to suggest an upward sloping trading range in equities as we move into the new year.

Risk Management

Our models continued to indicate a more constructive environment, with hedging continued at a minimal level, similar to November. We will continue to monitor this carefully with our overall view towards prudently managing volatility for our investors, while allowing positive market participation.

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