GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary February 2011

GMP Diversified Alpha Master Fund (the "Fund") generated a positive net return of 1.65% for the month of February. We continue to report the performance for the Master Fund here and show our Net Asset Values and returns for the share classes on the Monthly Newsletter.

The Fund has participated in the strong equity markets over the last several months and our returns have been at the upper end of our expected monthly returns. The Fund has generated a rolling 12 month return of 14.82% (net of fees) with a Sharpe Ratio of 3.19 (as compared to 0.99 and 1.88 for the S&P 500 and TSX 60 respectively). Since inception, the Fund is up 32.62% versus only 3.81% and 0.34% for the TSX 60 and S&P 500 respectively. This return profile underscores the outperformance of the Fund versus the major equity indices.

The Canadian dollar soared above par in February versus the U.S. dollar; up over 5% on the month to the highest levels since November 2007. Crude strengthened on the back of continued geopolitical risk in North Africa. No sooner had the departure of Hosni Mubarak from Egypt happened, then Libya followed suit with the rallying cry to oust Gaddafi. This political uncertainty caused the market to have two different moods during February: strong during the first part of the month, then choppy in the last two weeks. Oil skyrocketed to over $100 a barrel, giving rise to inflationary fears. Price strength continued in copper, silver, gold and several agricultural commodities. Natural gas continued its plummet, down over 6% on the month.

On the economic front, the Chicago PMI rose to 71.2 from 68.8 during January, against a prediction of a decline from economists. Pending home sales in the U.S. fell in January to the slowest level in three months. U.S. consumer spending rose less than expected as compared to the largest increase in incomes in more than one and a half years.

Equity Strategy

The Equity book generated strong positive returns that outperformed both the S&P TSX Index and the S&P500 for the month of February. The S&P 500 closed the month up 3.4% and the S&P TSX Index managed to close at new cycle highs and gained 4.4% on the month.

Given the pro-cyclical bias that drove the overall market, the gains in the Equity book were primarily driven by our energy, materials and technology holdings. Additionally, returns in the equity book were bolstered by strong stock selection in industrials. The energy sector returns were driven by strong returns in Pure Energy Services, Xinergy, Gasfrac energy and Whitecap Resources. Strong performers in the materials sector included Trelawney Mining, Torex Gold Resources and Intrepid Mines. Technology and industrial leaders included Poynt, Dell and Pure Technologies. We began the process of lowering the Fund's allocation to pro-cyclical equities, but we remain bullish on the outlook for the markets.

Credit Strategy

The Credit Strategy generated positive performance in February as the credit markets were supported by strong corporate performance and economic growth. There was a strong bid in the market for Canadian ABCP as non-Canadian investors continue to be active in the market. The credit markets continue to experience strong fund inflows with a positive $2.6 billion in February alone. The high yield index is now trading at below 7% yield to worst. At this point in the credit cycle, we have elected to reduce risk from the long side in the high yield bond portion of the credit strategy. From our perspective, the Canadian ABCP continues to provide a much superior risk adjusted return than all other credit products.

Quantitative Strategy

Quantitative Investing had positive results in February. Tactical Trading was up 1.61% for February with gains coming from long positions in the Canadian Dollar, Gold, S&P/TSX60, S&P500 and from the short side of the Russell 2000 equity index. The positive results of Tactical Trading were somewhat offset by losses in Volatility Trading; partly due to an increase in volatility but primarily due to the fact we were positioned for a short term pullback during much of the month. This positioning resulted in losses as the markets rallied into equity index option expiry.

Risk Management

Our capital allocation models continued to point to positive returns in equities. Notwithstanding this fact, market history would show that in the midst of an equity market rally of the magnitude experienced over the last two years, healthy corrections are inevitable. In addition, in the short term, the geopolitical risk in the Middle East and natural disasters as recently occurred in Japan, cannot be modeled and as such are an unquantifiable risk. Based on these two factors, we will continue to deploy various option hedging techniques to dampen the potential effects of this correction.

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