GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary January 2011

GMP Diversified Alpha Master Fund (the "Fund") generated a positive net return of 2.42% for the month of January. 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 Alpha 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 13.08% (net of fees) with a Sharpe Ratio of 2.78 (as compared to 0.98 and 1.90 for the S&P 500 and TSX 60 respectively).

January was a volatile month for equities in the Canadian Market driven largely by the mix in commodities prices. Gold continued its selloff, Copper strengthened and Natural Gas lost value while Crude traded on either side of $90 price. The US$ continued to lose value during the month of January against most major currencies. The second round of QE2 in the US as well as continued signs of a strengthening US economy were factors that helps to stabilitze equity sentiment and interest rate volatility, which had been present in previous months. In Canada, the BOC announced "no-change" to overnight rates, still at 1%. Economic data from both the US and Canada was positive, with US Q4 GDP rising 3.2% and November GDP in Canada up 0.4%, both versus year ago.

Equity Strategy

The equity book generated strong positive returns that materially out-performed both the S&P TSX Index and the S&P500 for the month of January. The S&P TSX Index gained 1.30% during a volatile period that saw the Index down over 1.0% twice during the month. With the price of gold and related equities faltering, the Index had a difficult time getting through 13,500. The continuing economic recovery in developed markets helped the S&P 500 generate a stronger and smoother 2.4% return on the month. The pro-cyclical sectors of energy, industrials and information technology, took a queue from this resurgent growth and lead performance on the month. The S&P 500 also benefitted from a rebound in the **f**inancial **s**ervices sector as **bank stocks** responded to a stabilizing US economy. These are the exact same indices that lead performance in December 2010. Both North American indices saw a weakening in market breadth from the very strong December results: the S&P TSX saw 54% of names post positive returns, while the S&P 500 saw 63%. Although lower than December, these breadth measures remain healthy and supportive of continued market strength.

As noted above, having exposure to pro-cyclical sectors was important to achieving performance in January and our high weightings in these sectors were contributors to the out-performance. The fund's Materials holdings experience mixed performance with iron ore and forest products holdings performing very well, while precious metals and copper holdings under-performed. Returns in the equity book were also bolstered by strong stock selection in financials and consumer staples. The energy sector returns were driven by strong returns in Xinergy, Twin Butte, Aurora Oil & Gas, Gasfrac Energy and Athabasca Oil Sands. Strong returners in the materials sector included Consolidated Thomson and Alderon Resources. API Technologies and CSX led our industrials holdings, while Apple drove performance in information technology. Other strong performers included Triumph Group, General Dynamic, Foster Wheeler, Canaccord Financial and Domtar. During the month the Fund maintained a high net exposure to equities, especially pro-cyclicals with low valuations.

Credit Strategy

The Credit Strategy drove the majority of our return in January within the Alpha Fund. The positive Credit strategy performance was supported by improving economic data and, for the moment, a better sentiment towards the Euro-zone debt crisis. There was a strong bid in the market for Canadian ABCP as non-Canadian investors entered the market aggressively in the month. High yield spreads tightened again in January. With the high yield index trading at approximately 7.05% yield to worst, we have elected to reduce risk from the long side in the high yield bond portion of the credit strategy. At this point in the market, the Canadian ABCP continues to provide a much superior risk adjusted return than all other credit products.

Quantitative Strategy

January performance for the quantitative strategy was positive in both the Volatility and Tactical Trading sub-strategies. The story in the volatility strategy continues to be one of hedging market movements at levels below where options are sold, realizing profit. Tactical trading suffered losses on its long gold exposure but these were more than offset by profitable results in the S&P500 and the S&P/TSX60. As a point of interest, both the long and short signals on the S&P/TSX60 made money in January with the index up 1.3% in the month. For February, we implemented short only signals on the Russell 2000 US mid-cap equity index and long and short signals on the Canadian dollar.

Risk Management

Our models continued to suggest minimal hedging. We are proactively watching this posture, with a continued view at managing monthly volatility.

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