GMP Investment Management
Maximizing Return, Minimizing Risk

GMP Diversified Alpha Fund

Monthly Market Commentary October 2011

The Diversified Alpha Master Fund (the "Fund") lost 0.19% in the month of October of 2011. Since inception the Fund is up 26.63% vs. the SPX and TSX which are both down over the same period.

We entered the month of October with roughly the same risk posture in the Fund as was held the previous two months, i.e. very low overall risk and historically high levels of cash. We continued to monitor economic activity and price volatility in the markets during the month. We believed the prudent course of action was to remain focused on capital preservation and management of short term return variability. While we did participate in a rebound in credit prices during the month in our ABCP strategy, this was offset by small losses in our Corporate Bond, Equity and Quantitative strategies.

As the month unfolded, events in the Euro zone continued to deteriorate with daily oscillations in policy direction from the Greek government and continued weakness emanating from Italy. As we write this commentary, both Papandreou of Greece and Berlusconi of Italy have stepped down. In spite of these changes in leadership, it is clear that there is no short term solution to either the European sovereign debt crisis nor the leverage issues facing the developed world. In October, the ECB and EFSF continued to wrestle with the increasing short term funding requirements of Italy and Greece, as Merkel and Germany continued to look for cooperation and support from outside of the Euro zone (including China and Brazil). Notwithstanding the on-going Euro debt crisis, global markets rallied during the month. This rally was on relatively low volume and driven primarily by short covering as the most shorted equities from August and September outperformed the overall market. This was not an equity rally that inspired us to reconsider our risk allocation during the month. In contrast to the Euro problems, corporate profits continued to exceed expectations with over two-thirds of the S&P 500 companies beating estimates for the third quarter profit season. However, until a permanent solution is found to the European debt problem, corporate profits will not be the primary driver of market performance.

Performance from the Equity strategy was close to flat on the month. As correlation across sectors and assets remained high, the strategy kept risk low. Unfortunately, one of our most profitable short positions, Daylight Energy, was purchased at an extremely high valuation by the Chinese energy company Sinopec. This resulted in a reversal of previously earned profit. Metals and energy rallied, again, driven more by short covering than from a fundamental shift to a valuation .

The Credit strategy generated positive performance for the month. While credit markets had been challenged during August and September, they rallied during October and we participated in the rally primarily through our core Asset Backed Commercial Paper strategy. The credit markets posted strong performance in the month after coming off the worst quarter of performance since 2008. Notwithstanding the European debt issues, there was an improved risk sentiment in the credit markets that led to a sizeable inflow into the high yield market. For the month, high yield credit outperformed the less risky investment grade credit market.

The Fund's Quantitative strategy was down small on allocated capital during the month. Tactical trading results were negative in the SP/TSX60 & Russell2000 and positive in Gold and the S&P 500. Volatility was slightly negative as well. October's dramatic equity price action flipped the strategy from generally net short to small long. High volatility and correlation in all markets have led us to reduce risk in these strategies.

As we enter November, the Euro troubles remain, equity market volatility continues to be extremely high, the markets have sold off and the ECB continues to be the primary buyer of Euro zone debt. Actively allocating our capital to opportunistic credit and equity positions will continue. Overall, our risk posture remains conservative as we are focused on protecting capital. While this may sound like a broken record, it is consistent with the mandate of the Fund and consistent with our focus on generating superior risk adjusted returns over the long term.

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