# Fiera Quantum Diversified Alpha Fund

FIERA QUANTUM

NOVEMBER 2013

## Strategy Description

Absolute return, multi-strategy approach, focused on dynamic capital allocation and risk management through diversified North American investments in equity, credit/fixed income, quantitative and short term strategies. The approach optimizes risk adjusted total return while limiting volatility and preserving capital.

## Portfolio Manager

Fiera Quantum Limited Partnership

## Fund Details

| | Class A |
|---|---|
| Fund Codes | GMP104 – A-1 |
| Management Fee | 2.00% |
| RSP Eligibility | Yes |
| Assets under management[1] | $189.0 M |
| Minimum Investment | $100,000 |
| Performance Fee | 20% |
| Hurdle Rate | No |
| High Water Mark | Yes |
| Trustee | Natcan Trust Company |
| Custodian | One or more financial institutions and/or their affiliates in their role as prime broker |
| Auditor | Deloitte & Touche LLP |
| Liquidity | Monthly<br>60 day notice required |

[1] *Assets Under Management is the sum of all Classes of the Fund as at previous month-end*

## Investment Highlights

- Diversified, multi-strategy approach focused on dynamic capital allocation and risk management
- Multiple asset classes with a North American focus
- Focus on absolute returns with limited monthly volatility
- Robust risk management through dynamic position limits and static stop losses

CAPITAL PRESERVATION > LOW VOLATILITY > ABSOLUTE RETURNS

## Performance net of all fees (Master Fund) (%)

| | Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. | Year/ YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | 1.01 | 3.27 | 1.72 | 1.44 | 1.07 | -7.90 | -13.14 | -7.56 | 0.42 | -19.22 |
| **2009** | 2.98 | 1.00 | 4.12 | 8.56 | 7.07 | 0.35 | 1.41 | 2.57 | 2.35 | 1.14 | 1.04 | 2.08 | 40.28 |
| **2010** | 1.74 | 0.05 | 1.32 | 1.41 | -1.01 | -0.67 | 0.13 | 0.08 | 1.86 | 1.98 | 1.70 | 3.05 | 12.19 |
| **2011** | 2.42 | 1.65 | -0.84 | -0.19 | 0.31 | -0.92 | 0.49 | -1.15 | -2.09 | -0.19 | -0.72 | -1.19 | -2.48 |
| **2012** | 2.03 | 0.80 | 0.80 | -0.44 | -0.84 | 0.14 | 1.64 | -0.10 | 0.49 | 0.08 | -0.28 | 0.32 | 4.70 |
| **2013** | 1.24 | -0.41 | -0.12 | -1.10 | -0.13 | -1.84 | 1.48 | -0.83 | 0.94 | 1.15 | 0.37[2] | | 0.69[2] |

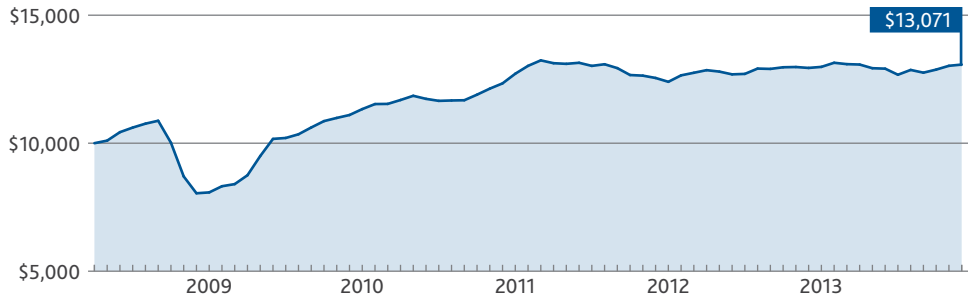
| 1 Month | 3 Months | 6 Months | YTD | 1 Year | 2 Years[3] | 3 Years[3] | 5 Years[3] | Inception[4] |
|---|---|---|---|---|---|---|---|---|
| 0.37 | 2.48 | 1.23 | 0.69 | 1.02 | 2.07 | 1.95 | 10.20 | 4.84 |

[2] *Performance figure for the month of November is preliminary and is subject to further confirmation by the portfolio manager.*

[3] *Returns for periods greater than one year are annualized.*

[4] *Prior to joining Fiera Quantum Limited Partnership on May 1, 2013, the current management team had been responsible for the management of the Fund at GMP Investment Management L.P. since December 1, 2008.*

## Growth of $10,000[2]




## Risk/Return Analysis[2]

| | |
|---|---|
| Net annualized return since inception | 4.84 |
| Annualized standard deviation | 9.72 |
| Annualized Sharpe ratio (1.09%) | 0.39 |
| Best monthly return | 8.56 |
| Worst monthly return | -13.14 |
| Percentage of months with positive performance | 66.18 |
| Average return when market is up[5] | 1.17 |
| Average return when market is down[5] | -1.46 |
| Worst drawdown | -26.04 |

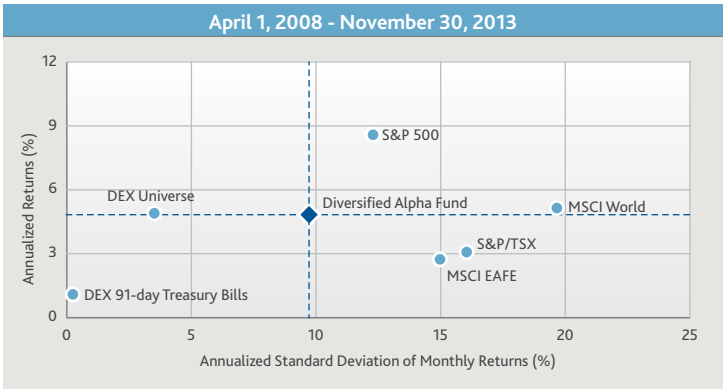
[5] *Market based on Fiera Quantum's blended benchmark: 40% S&P/TSX, 20% Merrill Lynch High Yield CAD, 20% Merrill Lynch US Master II, 20% S&P 500 USD.*

# Fiera Quantum Diversified Alpha Fund

## Diversification

| | | 0 10 20 30 40 50 60 70 80 90 100 |
|---|---|---|
| Equity | 44.0% | |
| Macro/Quantitative | 20.0% | |
| Credit/Fixed Income | 25.0% | |
| Cash | 11.0% | |
| **Total** | **100.0%** | |

## Stronger performance, lower relative volatility[2]




## Fund Commentary

The Diversified Alpha Master Fund posted positive risk-adjusted returns for November, up 0.37% net of fees.

After the U.S. government shutdown in October and the upward bounce in asset prices that followed, November continued the "risk-on" theme. Alpha Fund kept its allocation to equities close to the maximum due to our view that equities are the only asset that offers symmetric risk and return, as well as the correspondingly low risk perceived by the market through both short- and long-term volatility. Equities drove the Fund's performance this month, with the performance of our Credit strategy and the cost of protection limiting some of those gains.

Short-term volatility in the S&P 500 continued near the bottom of its trading range, with VIX spending most of the month in the low teens. The prices for insurance on the S&P 500 (three-month puts, put spreads and put spread collars) are all at one-year lows. Investor sentiment towards equities remains high. Within the broader U.S. market, small-cap stocks have continued to outperform their larger cap relatives. The Russell 2000 is now close to an all-time relative high versus the S&P 500, except for a short historical window in 1984. Furthermore, on the valuation side, price-to-book for the Russell 2000 versus the S&P 500 is at a 20-year high. Assuming that investors want to continue to benefit from the current momentum in the equity market, a logical question to ask would be why not choose large caps over small caps at this point, given the relative imbalance in prices and valuation?

As we continue to look for sources of low-risk alpha-generating return, we have been asked about leveraged loans by many of our investors. Clearly, demand for this asset class, and the corresponding product supply in North America, has been high throughout 2012 and 2013. More than five times the amount of covenant-lite loans were issued in the first nine months of 2013 than in 2012, and more than 74% more than in all of 2007. This is worrying in terms of market liquidity as leveraged loans are notoriously illiquid, which could exacerbate any downside price action. While this asset class has been profitable for investors seeking yield, we prefer to stay cautious. Our view is that this ship has already sailed.

Flat corporate revenue growth and strong earnings growth continues. Operating leverage is giving stock market bears fodder to argue that weak demand and rising rates will ultimately cause margins to contract sharply. On the other side of the argument (and the one that clearly has had the advantage 2013 YTD) are the equity bulls, who continue to make the case that balance sheet deleveraging and technological improvements have the market in a perpetual margin upswing.

Equities have powered Alpha Fund's positive returns so far in 2013. Credit and our hedges have cost the Fund performance over the same period. That said, over the long run, focusing on capital preservation and volatility management will benefit investors. Patience is difficult, but often rewarded. We remain liquid and focused on the Fund's key priorities.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