

BRAD DUNKLEY ALTERNATIVE INVESTMENT STRATEGIES COMMENTARY

April 13, 2009

With the introduction of the GS+A Multi-Strategy Funds earlier this year, many of you now have in place a diversified basket of alternative investment strategies. With that in mind, it seems appropriate that my quarterly letter should focus on broader investment topics going forward. In this letter I will discuss the approach we take when managing alternative investment funds.

Five years ago this coming May, I began managing long/short portfolios. Today, I manage four long/short portfolios, each with different objectives and strategies. As the name implies, long/short portfolios are really just two portfolios – one long and one short. Many have made the comparison that a long-only investor is akin to a boxer with one-hand tied behind his back. While it is true that hedge fund managers have additional tools at their disposal and can pursue a wider set of opportunities, with this flexibility comes the responsibility to use these tools effectively to manage portfolio risks. Many hedge funds had spectacular and unexpected declines last year and in most cases it came down to a combination of not using the tools available to them (shorting securities) or failing to measure and mitigate the risks they were taking. We never like losing money, but would rather lose money on a risk we *know* we are taking than a risk we *didn't know* existed in the portfolio. Therefore, we are very focused on identifying risks and correctly classifying securities in the portfolio.

While stories of hedge fund losses capture the headlines, the reality is that the majority of hedge funds significantly outperformed long-only investors last year¹. Every one of our alternative investment strategies significantly outperformed the broader markets and most succeeded in preserving capital.

The first quarter of 2009 was a very volatile one indeed. Although the S&P TSX Total Return Index finished the quarter down a mere 2.0%, at its worst point, on March 9th, it had declined 15% for the year, while the S&P 500 was down 20% (in Canadian dollars) at its low. The GS+A Multi-Strategy Fund and the GS+A Multi-Strategy Opportunities Fund performed well over the quarter. Despite rapid and volatile movements in the equity markets, the GS+A Multi-Strategy Funds produced steady, consistent performance. Less volatile returns and low correlations to the broader equity markets are the result of using a diversified group of underlying funds, each pursuing different investment strategies.

Each portfolio manager, myself included, is responsible for managing individual security and portfolio risks. A second level of risk measurement, monitoring and mitigation is done at the multi-strategy fund level. We are lucky to have a very smart fellow in the investment department by the name of Paul Nash. One of his jobs is to analyze the performance, volatility and correlation of all GS+A funds. The Asset Mix Committee uses this information along with many other factors to determine the appropriate mix of underlying funds within each of the two GS+A Multi-Strategy funds. I have no doubt that the multi-strategy fund approach that we have adopted is the right approach. I also have the utmost confidence in all of the underlying funds and their respective managers.

¹ CSFB/Tremont Long/Short Hedge Fund Index returned -19.8% (USD) compared to a 37.0% decline in the S&P 500 Total Return Index (USD).