

# Riverplus Fund

## MONTHLY INVESTMENT REPORT November 2010

SHARE PRICE (November 30): 101.01  
NAV (November 30): CHF 55'852'667

Riverplus Fund is a long-short Delta, Gamma, and Vega fund incorporated in the Cayman Islands. The inception date was **October 1<sup>st</sup>, 2009**. The fund's objective is to generate a stable source of return by actively trading in listed Swiss stocks, options on Swiss and European stocks, and Index Futures. Investment advisor of Riverplus Fund is lambda Capital Group.

### Monthly Net Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009										0.02%	-0.31%	0.38%	0.09%
2010	0.67%	0.23%	2.02%	-0.72%	-0.98%	-0.26%	0.94%	-0.25%	0.29%	1.19%	-2.15%		0.92%

### Comment on the Negative Performance

The negative performance of the fund is driven by a series of negative returns at the very end of the reporting period. Up to November 18 with a NAV topping the level of 104.2, we were very confident to add another positive month to the previous month's return. However, a wrong assessment of the prospects in mainly three stocks, **UBS**, **FIA**, and **NOVN** accounted for about half of the losses incurred in November.

In the case of **UBS**, we were relying on a recovery of the banking sector with the Irish government yielding to pressure from its European Union counterparts to seek an emergency bailout from the EU and the IMF. In our assessment of the situation we were guided by the rally witnessed in May, when the Greek government secured a 110 billion bailout. This time, however, proved different. Uncertainty remained high and markets felt starved of detail about the bailout. The lack of clarity and the worries of whether Ireland could cope with the problems politically had a negative impact on the SX7P banking index. It dropped by 12.6% from its November high. This drop generated a loss of our long position in **UBS** of about 0.46% of NAV.

Another 0.4% of loss in terms of NAV was caused by the increasing volatility, both realized and implied, in **FIA** as we had some substantial short volatility exposure in this title. The 10-day realized volatility increased from 29% to 45%, while the 3-month implied volatility increased from 34% to 41%.

Finally, we took a negative hit in our engagement in **NOVN**. With the positive outcome of the company's Investor Day, several analysts bought into the company's argument that consensus growth estimates are too low. The stock dropped in November by 6.4%. Moreover, it also significantly underperformed the Pharmaceutical Index. This unexpected development left us with a loss of 0.35% of NAV.

### Key Ratios\*

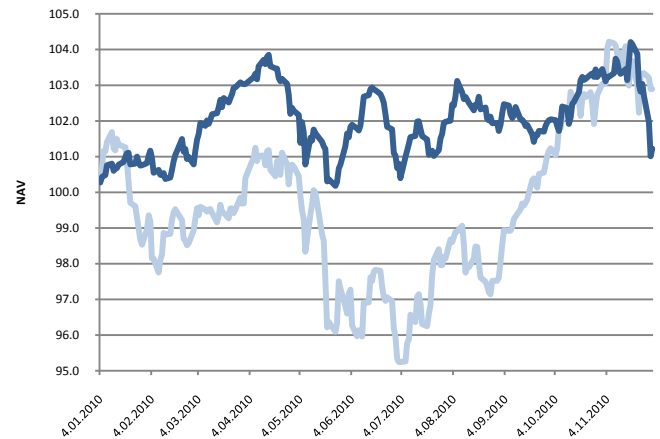
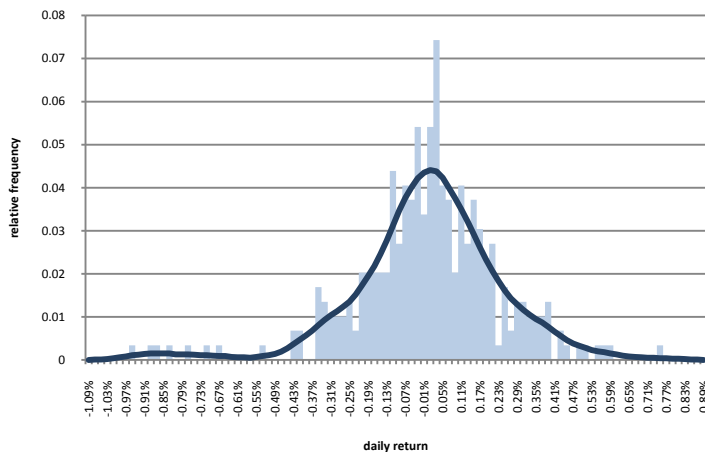
	Since Inception (Oct 1 <sup>st</sup> , 2009):	November 2010:
Annualized Volatility	3.73%	6.14%
Sharpe Ratio (bias corrected) <sup>1</sup>	0.23 (0.22)	-4.04 (-2.95)
Up vs Down Days	54%	41%
Shortfall Probability	46%	59%
Sortino Ratio	0.3	-4.61
Omega Ratio	1.04	0.50
Upside Potential Ratio	7.75	4.68
Top Performers	NOBN, LOGN, NESN	
Top Losers	UBS, FIA, NOVN	

\*To calculate the Sharpe Ratio and other key ratios we use the average 1 month CHF Libor rate over the respective time horizon as proxy for the risk-free rate. All numbers are based on daily NAV calculations and we annualize by assuming 253 trading days. The Shortfall Probability measures the probability of the fund return to be smaller than the risk-free rate. The Sortino, Omega, and Upside Potential ratios are investment ratios based on lower partial moments. The Sortino ratio is an adjusted Sharpe ratio for which the volatility generated by negative returns (semi-volatility) is taken into account. The Omega Ratio is a probability weighted ratio of gains to losses relative to the risk-free rate. The Upside Potential Ratio is calculated as the ratio between the expected upside and semi-volatility.<sup>2</sup>

<sup>1</sup> Our bias-corrected Sharpe Ratio is based on an annualization correction and a Newey-West adjustment for the standard deviation of returns that takes into account serial correlation and heteroscedasticity, both of which can lead to potential biases in the traditional Sharpe Ratio calculation. See, Lo, Getmanky, and Makarov (2004), "An Econometric Model of Serial Correlation and Illiquidity in Hedge-Fund Returns," *Journal of Financial Economics*, 74, 529–609.

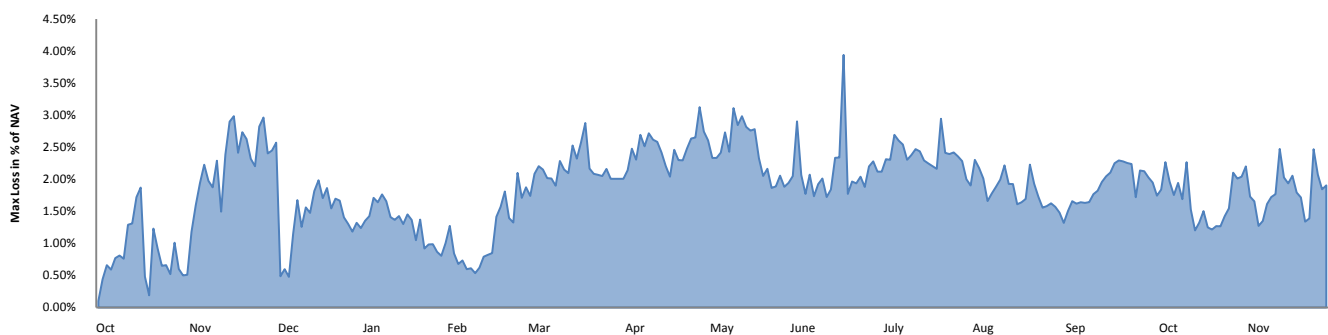
<sup>2</sup> For more details on the above performance measures, we refer the interested reader to the papers of Sortino, van der Meer, Plantinga (1999), "The Dutch Triangle," *Journal of Portfolio Management*, 25, 50-57; Keating and Shadwick (2002), "A Universal Performance Measure," *Journal of Performance Measurement*, 6, 59-84; Kaplan and Knowles, "Kappa: A Generalized Downside Risk-Adjusted Performance Measure," *Journal of Portfolio Management*, 8, 24-54.

## Evolution of NAV and Distribution of Daily Returns<sup>3</sup>



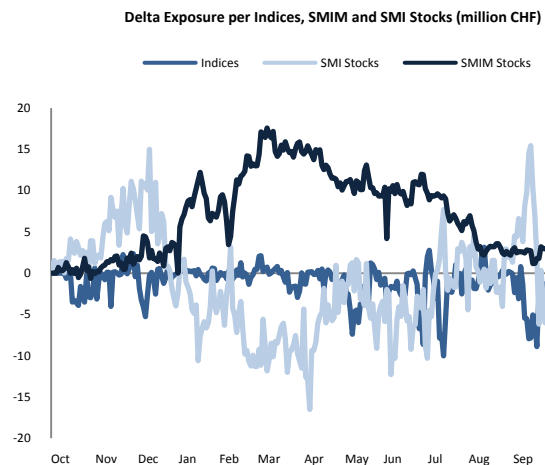
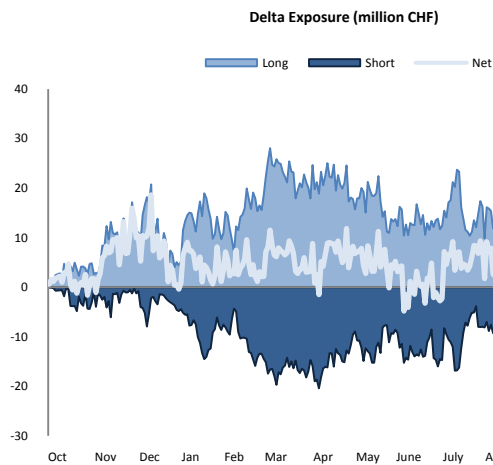
## Risk Exposure

Our risk allocation for the different strategies within Riverplus is based on the maximum loss principle. In contrast to the commonly used Value-at-Risk, Maximum Loss is a coherent risk measure.<sup>4</sup> As an overall acceptable risk exposure on the fund level, we fix a monthly maximum loss of 5% at the 95% confidence bound.



## Delta Exposure

The figures below show our Delta exposures. On the right, we plot our long and short Delta positions as well as the resulting net Delta position, expressed in millions of CHF. The left figure illustrates the Delta exposures for our index positions and for the positions in SMI and SMIM stocks.

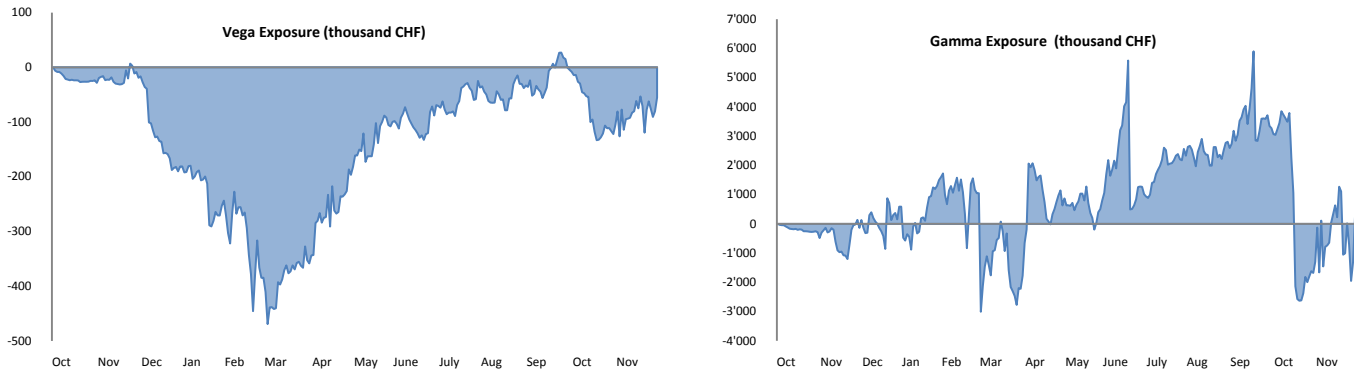


<sup>3</sup> For the daily return distribution, we plot the histogram together with a non-parametric density estimator based on Gaussian kernels.

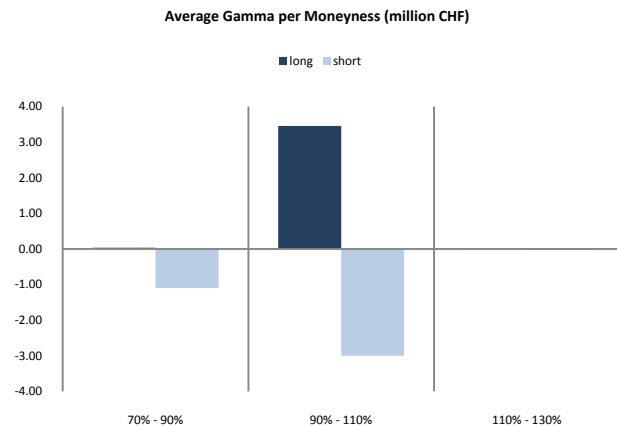
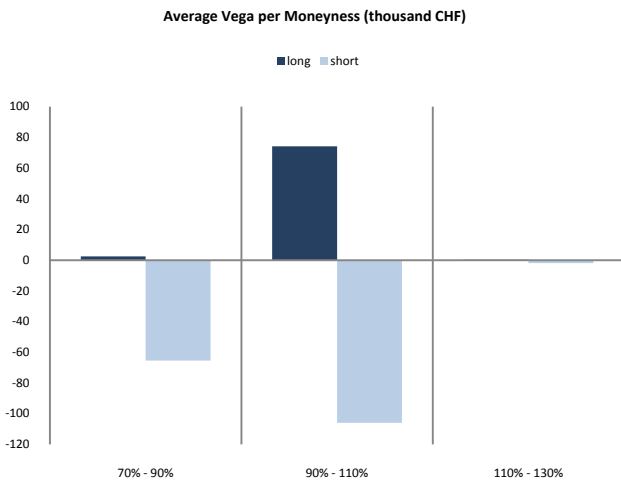
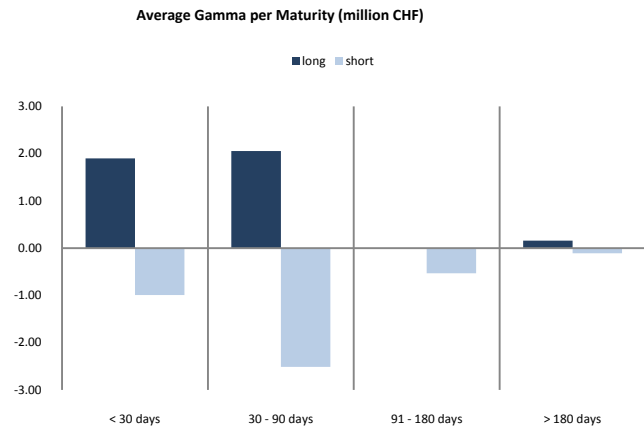
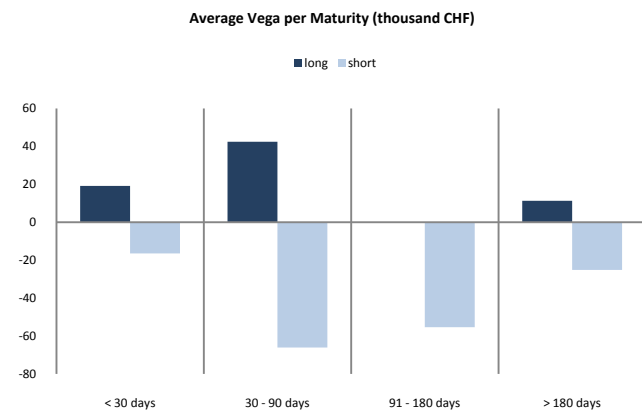
<sup>4</sup> See, Artzner, Delbaen, Eber, Heath (1999), "Coherent Measures of Risk," *Mathematical Finance*, 9, 203-228.

## Gamma and Vega Exposure

A large part of the risk capital is allocated to active option-based strategies. Therefore, Gamma and Vega exposures play a prominent role in our risk management and need to be monitored carefully. The figures below plot the daily net Gamma and Vega exposures since inception.

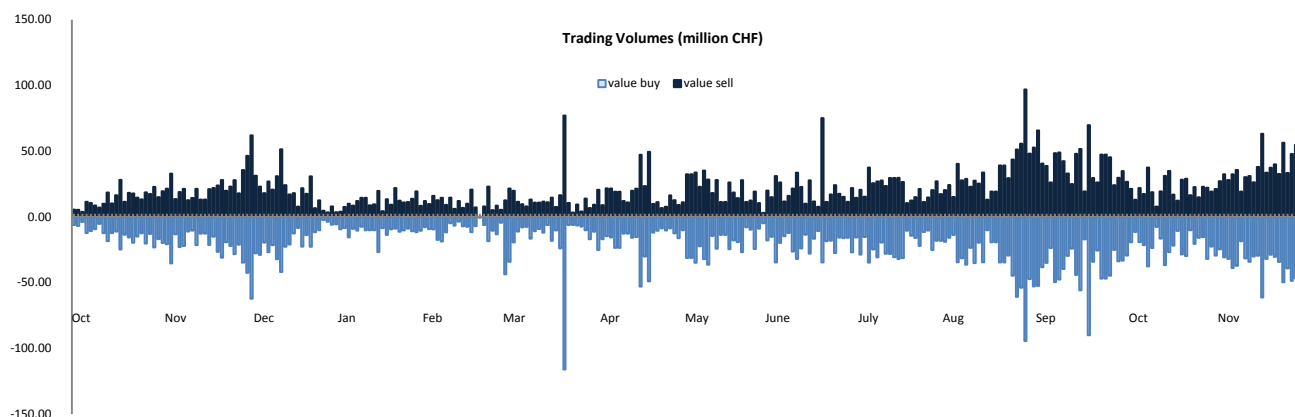


To provide more information about the nature of our Vega and Gamma exposures, we plot the maturity and moneyness buckets for the average daily Gamma and Vega positions in the figures below, split up into long and short positions.



## Daily Trading Activity

Riverplus is committed to a highly active trading strategy. Below we report the daily values of the buy and sell trades (in millions of CHF) since inception.



## Additional Information

<b>Strategy</b>	Long-Short Delta Gamma Vega	<b>Assets under Management (November 30, 2010)</b>	56 million
<b>NAV per Unit</b>	101.01	<b>Redemption</b>	monthly/30 days notice
<b>Management Fee</b>	2%	<b>Performance Fee</b>	20%
<b>Fund Structure</b>	single fund, open-end	<b>Prime Broker/Custodian</b>	Credit Suisse
<b>Legal Advisor to the Fund</b>	Maples and Calder	<b>Administrator</b>	BNY Mellon Alternative Investment Services*
<b>Equalisation</b>	yes	<b>High-Water-Mark</b>	yes (103.03 as of November 30, 2010)
<b>Investment Advisor</b>	lambda Capital Group	<b>Investment Manager</b>	Riverplus Management Company
<b>Domicile</b>	Cayman Islands	<b>Auditor</b>	KPMG
<b>Stock Exchange Listing</b>	Irish Stock Exchange	<b>Valor/ISIN</b>	10263523/KYG759421053
<b>Day of Inception</b>	October 1 <sup>st</sup> , 2009	<b>Share Class</b>	CHF

\* Please note that effective July 1<sup>st</sup>, 2010, PNC Global Investment Servicing has been acquired by The Bank of New York Mellon Corporation. PNC Global Investment Servicing (Europe) has changed its name to BNY Mellon Investment Servicing (International) Limited. Other than the name change, there were no other changes made.

For further details or for more information, please contact us at [contact@lambdacapital.ch](mailto:contact@lambdacapital.ch) or visit [www.lambdacapital.ch](http://www.lambdacapital.ch)

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