

Riverplus Fund

MONTHLY INVESTMENT REPORT July 2011

SHARE PRICE (July 29): 102.35
NAV (July 29): CHF 46'846'976

Riverplus Fund is a long-short Delta, Gamma, and Vega fund incorporated in the Cayman Islands. The inception date was **October 1st, 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%	2.56%	3.51%
2011	0.31%	0.69%	1.05%	0.97%	0.66%	-2.20%	-2.64%						-1.21%

Key Ratios*

Since Inception (Oct 1st, 2009):

July 2011:

Annualized Volatility	4.07%	5.95%
Sharpe Ratio (bias corrected) ¹	0.35 (0.29)	-5.13 (-5.13)
Up vs Down Days	55%	40%
Shortfall Probability	45%	60%
Sortino Ratio	0.47	-5.72
Omega Ratio	1.06	0.44
Upside Potential Ratio	8.04	4.48
Top Performers	ROG, SSMI, STOXX50E	
Top Losers	CRDI, FIA, PSHG	

*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.²

Comment on the Negative Performance

Again, as in the previous month, we are forced to add a comment on the negative performance of our strategy. The market situation has not changed. On the contrary, fears of a significant market drop similar to the one witnessed in 2008 have risen. In addition to the ongoing worries about the eurozone situation, the main focus was and still is on the U.S. economy and politics. Not only became traders increasingly nervous about the seemingly-intractable impasse in Washington, but also shocking GDP figures hit the market. In addition to the disappointing second quarter growth, the surprising revision of first-quarter GDP growth from 1.9% down to 0.4% suggests a more troubling and fundamental slowdown in the U.S. might be underway.

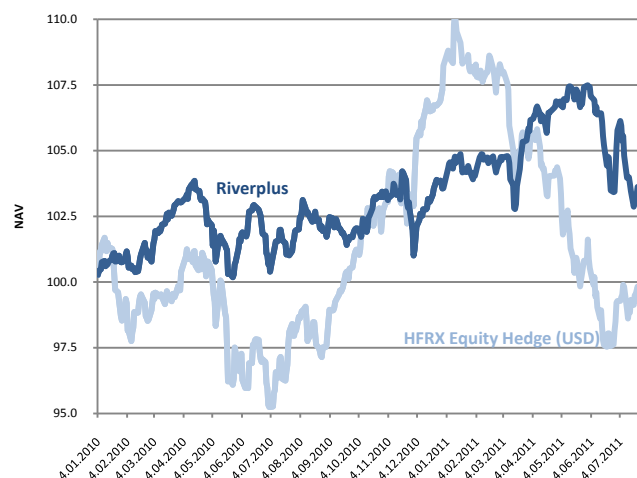
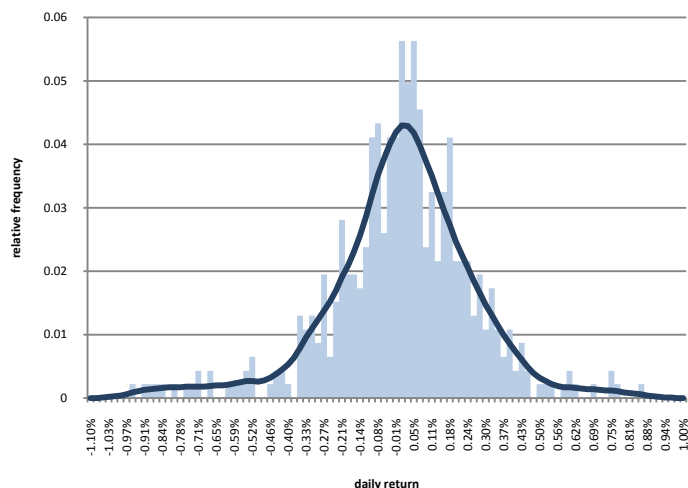
Critical for our performance was the same scenario as in June. The VIX index came down just at the beginning of the month and started at the beginning of the month from a level slightly below 16%. On July 29 the VIX index ended at a 25.25% high, which constitutes a 57% increase. By the middle of the month, on July 18, the SMI index has dropped 3.08% from the beginning of the month just to end flat by month end. However, as we did not observe a reduction in implied market volatility, we had to reduce the risks in our portfolio and hence we were not able to recover from the increase in the SMI index. At month end, market volatility went indeed up and so did the indices, both the SMI and the EuroStoxx 50, a scenario which is highly unusual as correlations between volatility and price changes are usually significantly negative and robust.

Our strategic investments in Gamma and Vega exposures have also been hurt by the current market situation. In particular, the two largest losses incurred came from two positions in Italian stocks. Our holdings in Unicredito and Fiat, which accounted for approximately three quarters of the current month's losses, were hurt by the sharp drop in the Italian stock market index of around 13%, the rising interest rates (from 4.5% to almost 6%), and the sudden increase in implied volatilities (UCG's implied ATM 3-month volatility soared from 38% to 78%). As a consequence, we reduced the risk in these positions by 75%.

¹ 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, Getmansky, and Makarov (2004), "An Econometric Model of Serial Correlation and Illiquidity in Hedge-Fund Returns," *Journal of Financial Economics*, 74, 529-609.

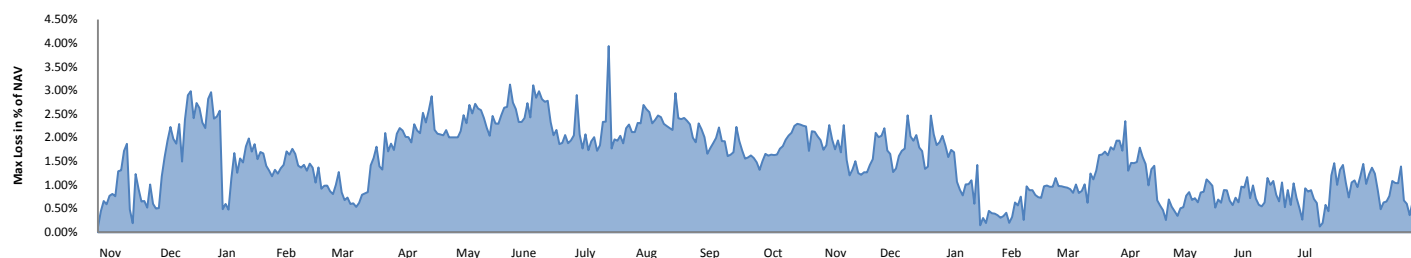
² For more details on the above performance measures, we refer the interested reader to the papers of Sortino, van der Meer, Plantinga (1999), "The Dutch Triangle," *Journal of Portfolio Management*, 25, 50-57; Keating and Shadwick (2002), "A Universal Performance Measure," *Journal of Performance Measurement*, 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 Returns³



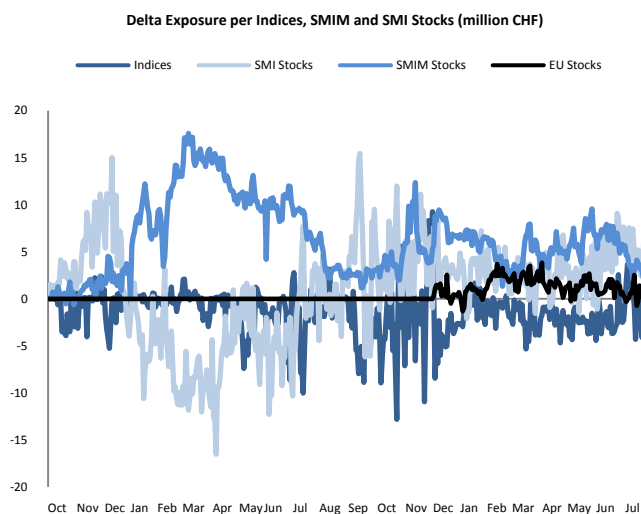
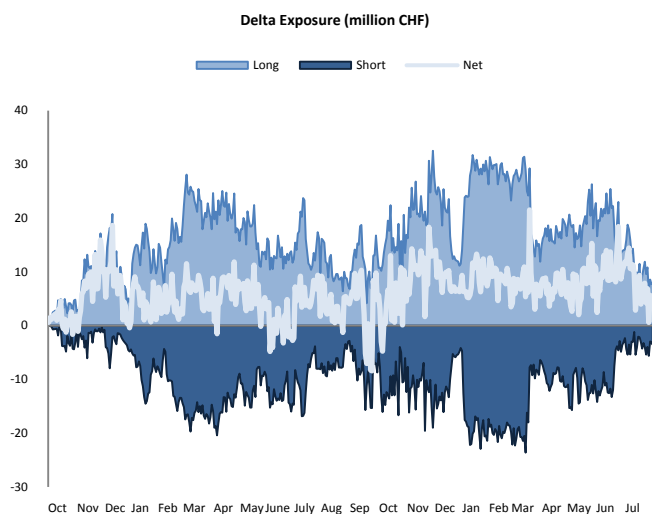
Risk Exposure

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.⁴ 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.

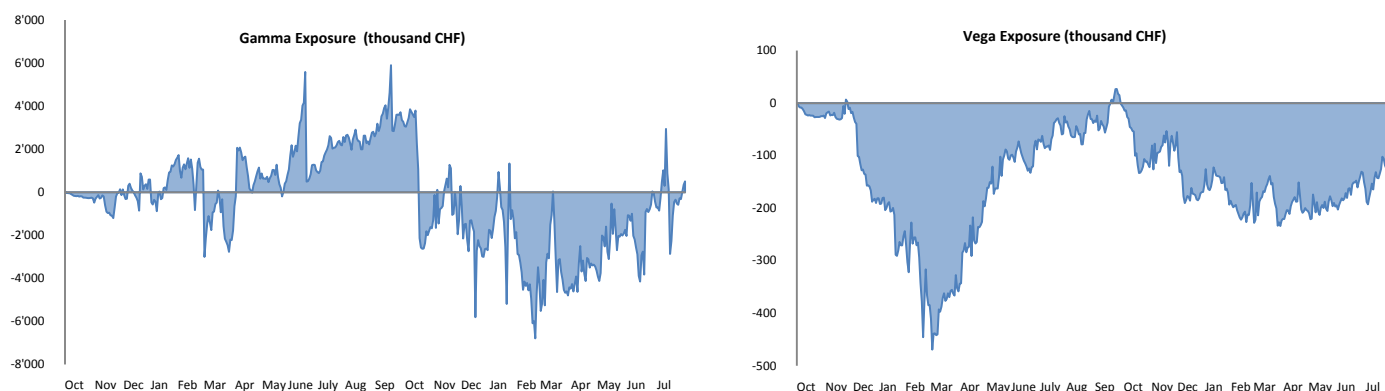


³ For the daily return distribution, we plot the histogram together with a non-parametric density estimator based on Gaussian kernels.

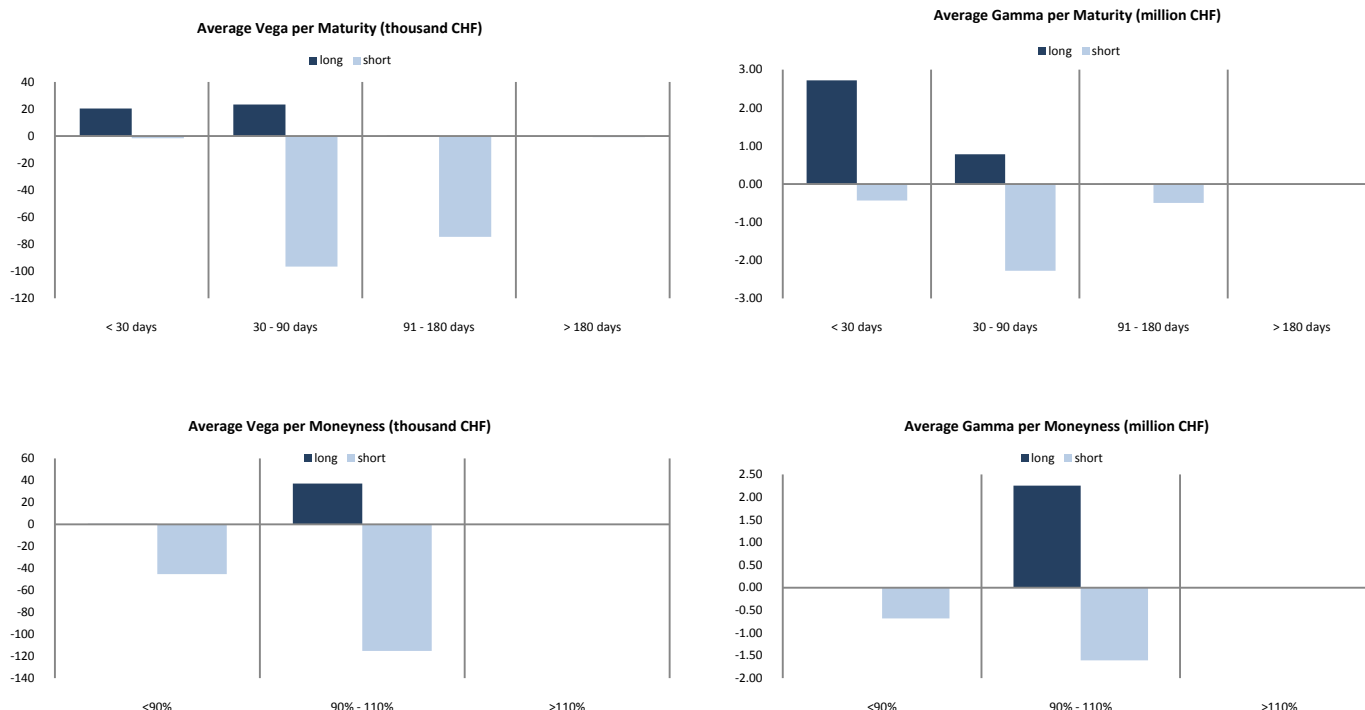
⁴ See, Artzner, Delbaen, Eber, Heath (1999), "Coherent Measures of Risk," *Mathematical Finance*, 9, 203-228.

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.



Additional Information

Strategy	Long-Short Delta Gamma Vega	Assets under Management (July 29, 2011)	47 million
NAV per Unit	102.35	Redemption	monthly/30 days notice
Management Fee	2%	Performance Fee	20%
Fund Structure	single fund, open-end	Prime Broker/Custodian	Credit Suisse
Legal Advisor to the Fund	Maples and Calder	Administrator	BNY Mellon Alternative Investment Services*
Equalisation	yes	High-Water-Mark	yes (105.74 as of July 29, 2011)
Investment Advisor	lambda Capital Group	Investment Manager	Riverplus Management Company
Domicile	Cayman Islands	Auditor	KPMG
Stock Exchange Listing	Irish Stock Exchange	Valor/ISIN	10263523/KYG759421053
Day of Inception	October 1 st , 2009	Share Class	CHF

For further details or for more information, please contact us at contact@lambdacapital.ch or visit www.lambdacapital.ch

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