

# Riverplus Fund

## MONTHLY INVESTMENT REPORT August 2011

SHARE PRICE (August 31): 101.38  
NAV (August 31): CHF 45'996'801

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%	2.56%	3.51%
2011	0.31%	0.69%	1.05%	0.97%	0.66%	-2.20%	-2.64%	-0.95%					-2.14%

### Key Ratios\*

	Since Inception (Oct 1 <sup>st</sup> , 2009):	August 2011:
Annualized Volatility	4.07%	3.99%
Sharpe Ratio (bias corrected) <sup>1</sup>	0.19 (0.16)	-3.37 (-2.98)
Up vs Down Days	54%	39%
Shortfall Probability	46%	61%
Sortino Ratio	0.26	-4.02
Omega Ratio	1.04	0.56
Upside Potential Ratio	7.91	5.16
Top Performers	STOXX50E, ROG, HOLN	
Top Losers	OERL, CRDI, NOK1V	

\*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>

### Comment on the Negative Performance

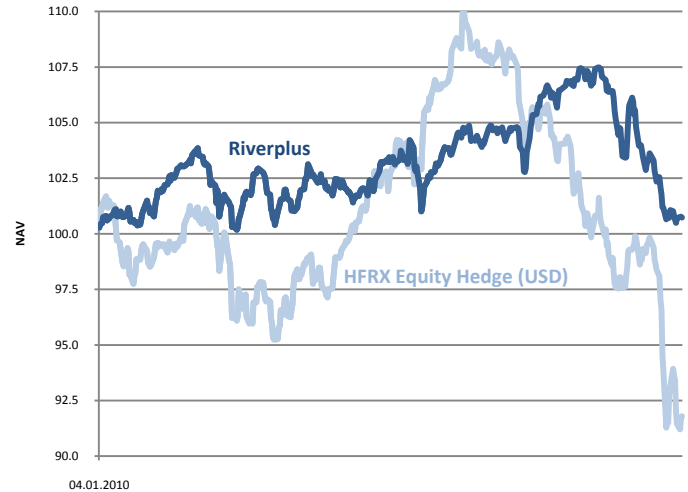
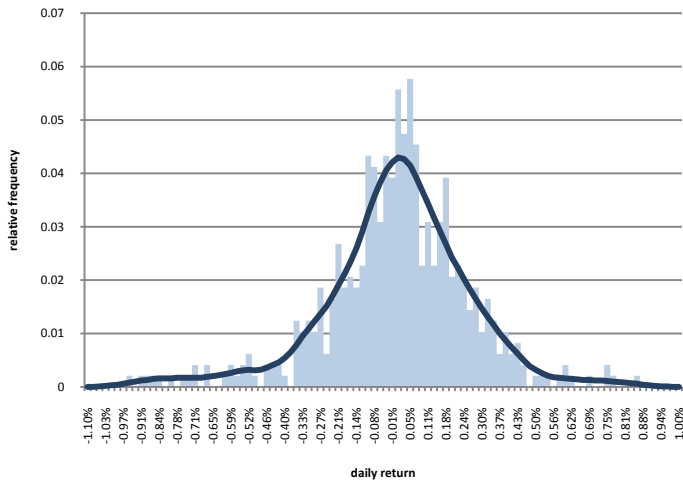
Sovereign debt uncertainties, market volatility, and the disregard of company fundamentals are giving little comfort for equity market investors. Dithering politicians, the lack of political leadership, and deteriorating public finances in the US and Europe have sent markets on a downward spiral. Long/short equity funds have been in negative territory since May and August turned out to be one of the worst month yet for the strategy. However, long/short equity funds are still outperforming the main equity indexes. Nevertheless, we are heading into another difficult juncture globally and overall market conditions appear to be worsening. Hence, caution remains warranted.

The political uncertainties, reinforced by the unexpected downgrade of US debt to AA+ from AAA by Standard & Poor's, were reflected also by the high volatility levels. The V2X index spiked from 20% around beginning of July to a level of 60% during August. A direct result of the volatile markets has been heightened correlation. The 3-months ATM implied correlation spiked to 90%, while the corresponding historical correlation increased to almost 80%. These levels of correlation leave little hope for diversification strategies to work. For our portfolio, we tried to take out the risk as much as possible at the beginning of the month. However, we were caught by the rapid increase in volatility for some single stocks, which in combination with the increased correlation, made it almost impossible to find the appropriate hedges. In particular, UCG caused some significant losses due to volatility levels that were beyond 100%.

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

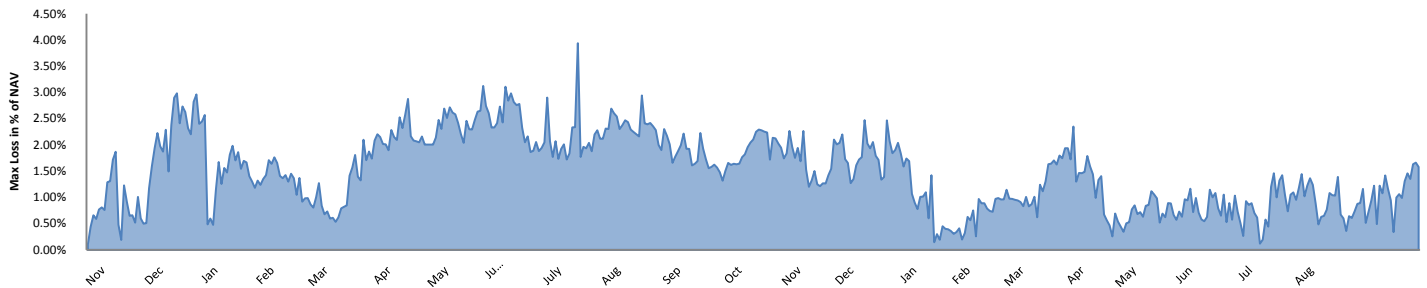
<sup>2</sup> For more details on the above performance measures, we refer the interested reader to the papers of Sortino, van der Meer, Plantinga (1999), "The Dutch Triangle," *Journal of Portfolio Management*, 25, 50-57; Keating and Shadwick (2002), "A Universal Performance Measure," *Journal of Performance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

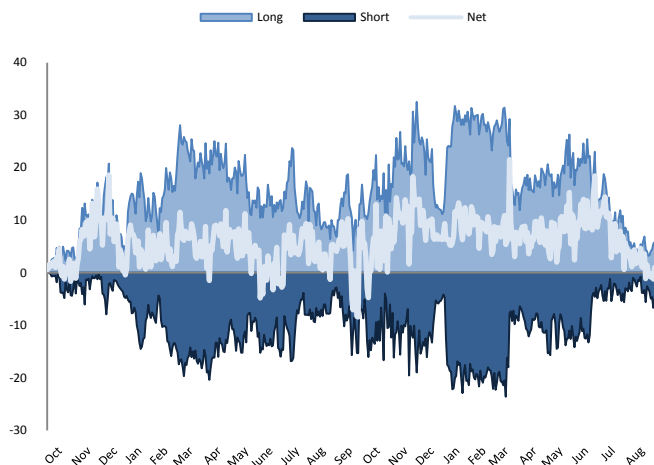
Our risk allocation for the different strategies within Riverplus is based on the maximum loss principle. In contrast to the commonly used Value-at-Risk, Maximum Loss is a coherent risk measure.<sup>4</sup> As an overall acceptable risk exposure on the fund level, we fix a monthly maximum loss of 5%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



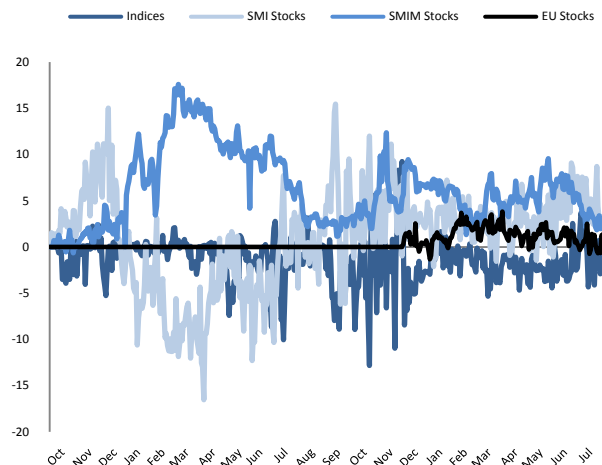
## Delta Exposure

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.

Delta Exposure (million CHF)



Delta Exposure per Indices, SMIM and SMI Stocks (million CHF)

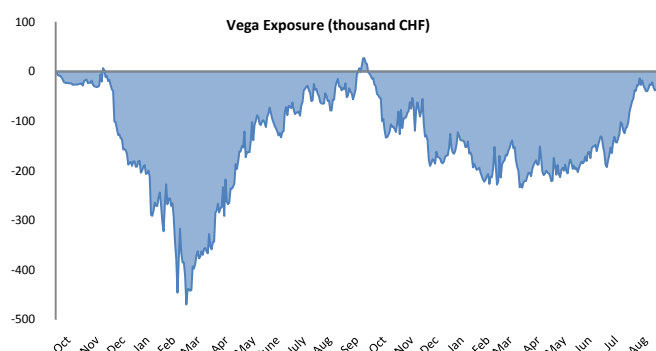
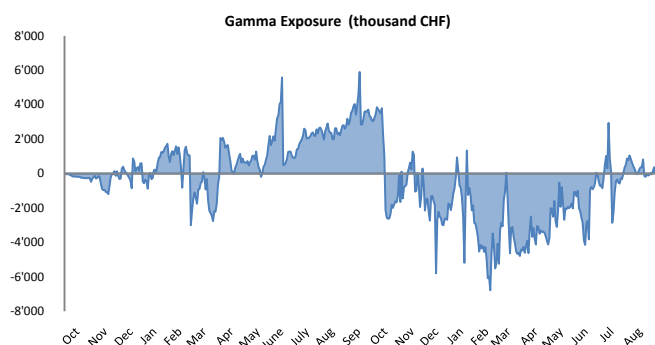


<sup>3</sup> For the daily return distribution, we plot the histogram together with a non-parametric density estimator based on Gaussian kernels.

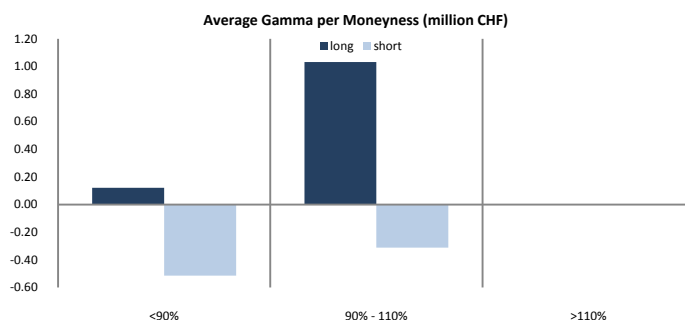
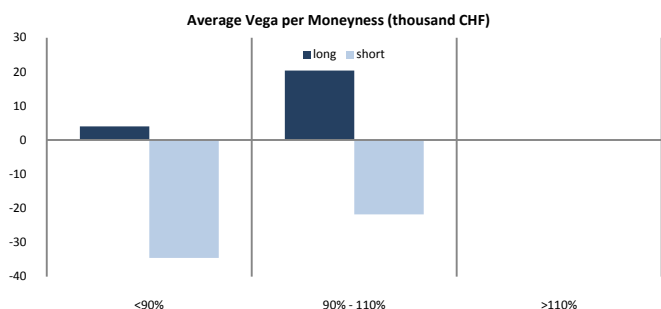
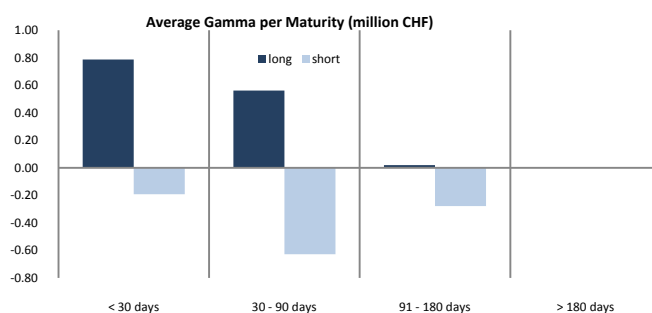
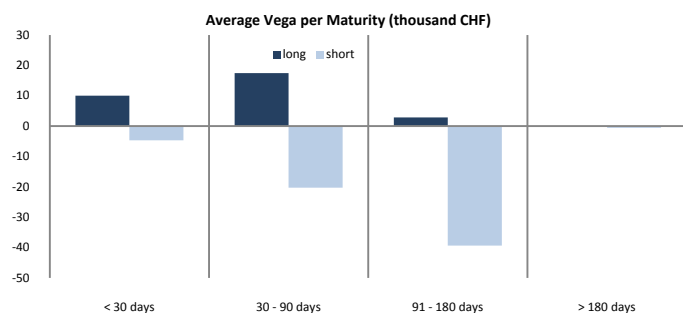
<sup>4</sup> See, Artzner, Delbaen, Eber, Heath (1999), "Coherent Measures of Risk," *Mathematical Finance*, 9, 203-228.

## 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.



### Additional Information

<b>Strategy</b>	Long-Short Delta Gamma Vega	<b>Assets under Management (August 31, 2011)</b>	46 million
<b>NAV per Unit</b>	101.38	<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 (105.74 as of August 31, 2011)
<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

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)

**Disclaimer:** Past performance is not necessarily indicative of future performance. The information contained in this letter represents neither an offer to sell nor a solicitation of an offer to buy any securities. Securities in this fund will only be offered through a current offering memorandum and appropriate subscription documents. The material provided herein is for informational purposes only. Investments in Alternative Investment Strategies are suitable only for sophisticated and qualified investors who fully understand and are willing to assume the risks involved. Alternative Investments by their nature involve a substantial degree of risk and performance may be volatile.