Riverplus Fund

MONTHLY INVESTMENT REPORT
May 2010

SHARE PRICE (May 31): 101.29
NAV (May 31): CHF 57'477'502

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 stocks, and Index Futures. Investment advisor of Riverplus Fund is lambda Capital Group.

Monthly Net Return

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%								1.20%

A Comment on the Negative Performance

Financial markets are currently navigating through turbulent times. The main theme in our strategy this month was `de-risking'. In particular, we cut back our exposure in volatility and gamma risks. At the same time, there was a substantial increase in implied volatility and skew. The SMI volatility index V3X was at 31.79 percent on the top and remained high and the skew has increased to levels last seen in the fall of 2008. For the SMI the 90-110 skew was around 11 on the top. As a consequence, the overall level of risk exposure measured in terms of maximum remained on levels of about 2 percent, although the absolute vega exposure has been significantly reduced.

Concerning our worst three performers, we were caught by surprise in our delta long position in **ADEN** by a sharp drop in the stock price by -13%. In **UHR**, we were short gamma while the implied volatility increased from 30 to 40 percent. Therefore, we cut our gamma exposure in UHR by 40 percent. **ROG** witnessed an increase in volatility and skew. Especially the increase in the skew had a negative impact on our performance. Hence, we subsequently decreased our vega exposure by 40 percent.

Overall, the month of May was a disappointing month for the hedge fund industry as a whole. Even those hedge funds, which offered to investors a bear-market shelter back in 2008, were suffering substantial losses. The HFRX Equity Hedge Index dropped by 2.93 percent through May 27. This index might serve as benchmark for Hedge Funds actively engaging in both long and short positions in equity and equity derivatives. We therefore add this index in our graphical analysis below and compare its evolution with Riverplus' share price.

Key Ratios*

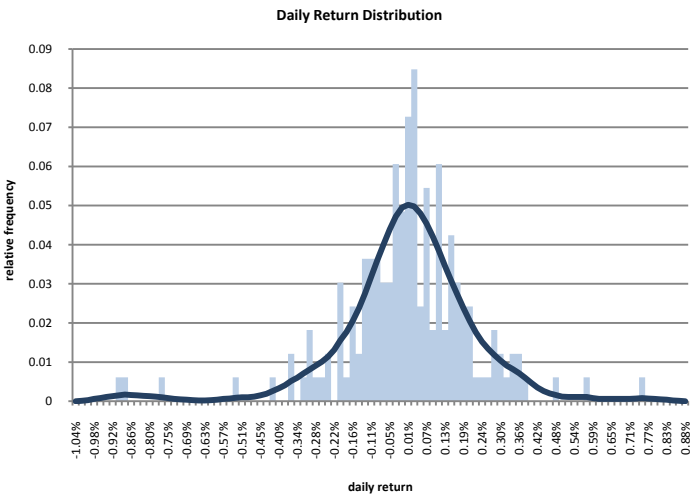
	Since Inception (Oct 1st, 2009):	May 2010:
Annualized Volatility	3.38%	5.51%
Sharpe Ratio (bias corrected)[1]	0.55 (0.58)	-2.04 (-2.21)
Up vs Down Days	56%	44%
Shortfall Probability	44%	56%
Sortino Ratio	0.74	-2.54
Omega Ratio	1.10	0.70
Upside Potential Ratio	7.65	5.96
Top Three Performers		OERL, SMI, RUKN
Top Three Losers		UHR, ROG, ADEN

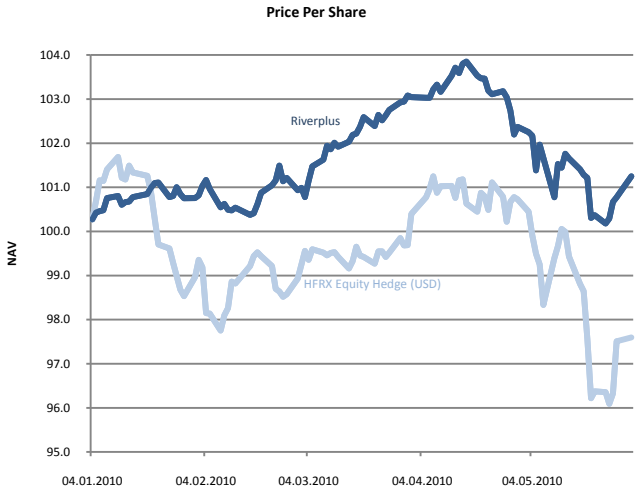
*To calculate the Sharpe Ratio and other key ratios we use the average 1 month CHF Libor rate over the respective time horizon as proxy for the risk-free rate. All numbers are based on daily NAV calculations and we annualize by assuming 253 trading days. The Shortfall Probability measures the probability 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]

[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, Getmanksy, 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.

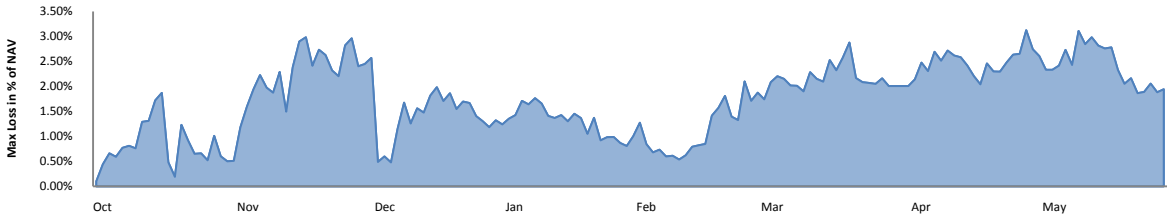
Evolution of NAV and Distribution of Daily Returns[3]





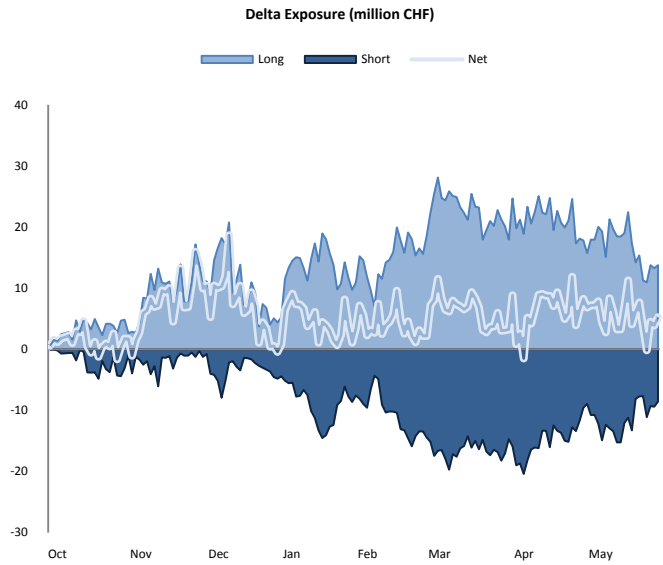
Risk Exposure

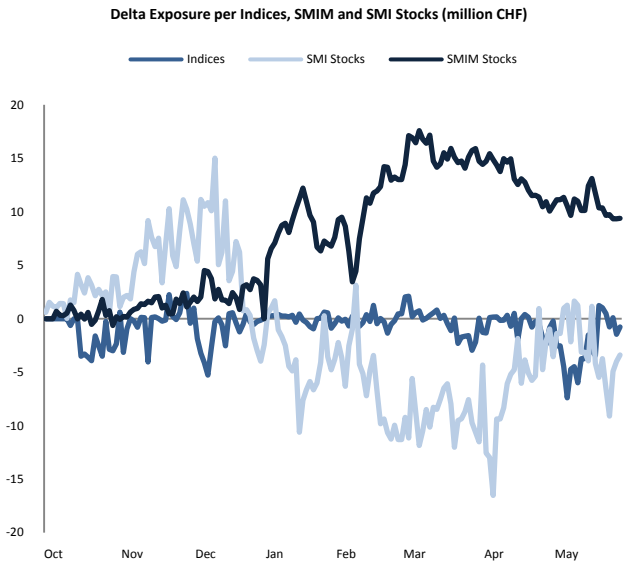
Our risk allocation for the different strategies within Riverplus is based on the maximum loss principle. In contrast to the commonly used Value-at-Risk, Maximum Loss is a coherent risk measure.[4] As an overall acceptable risk exposure on the fund level, we fix a monthly maximum loss of 5% at the 95%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



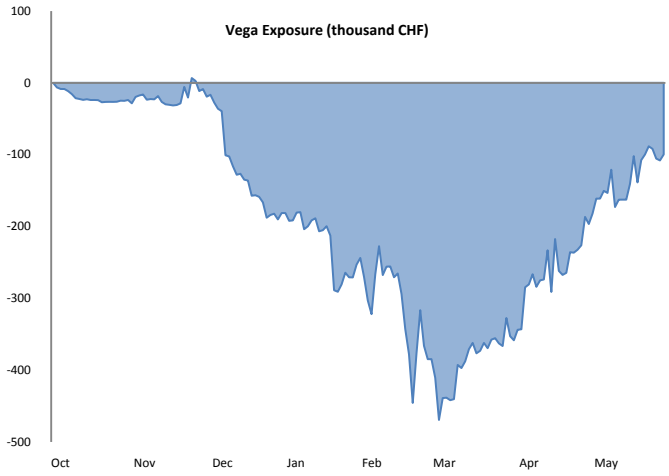


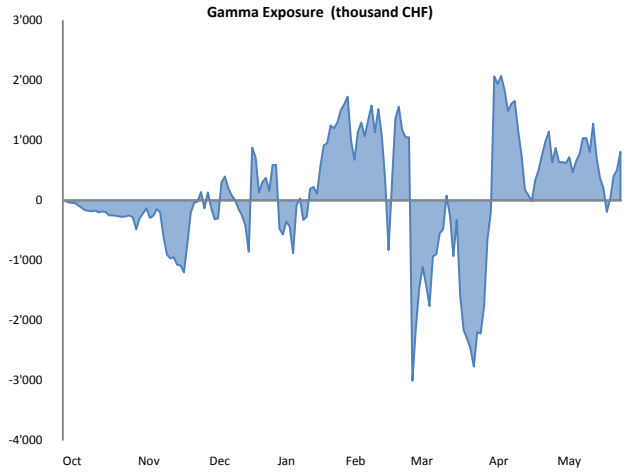
[3] For the daily return distribution, we plot the histogram together with a non-parametric density estimator based on Gaussian kernels.

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

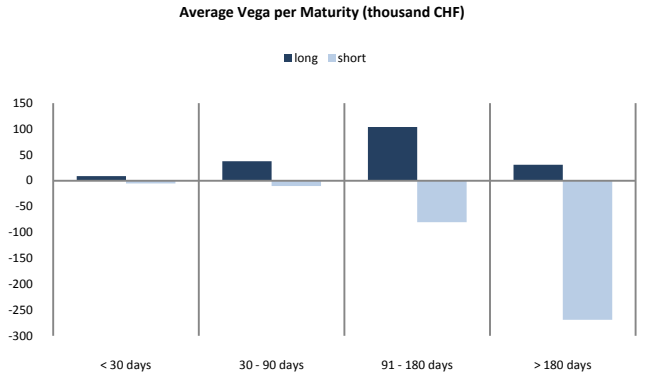
Gamma and Vega Exposure

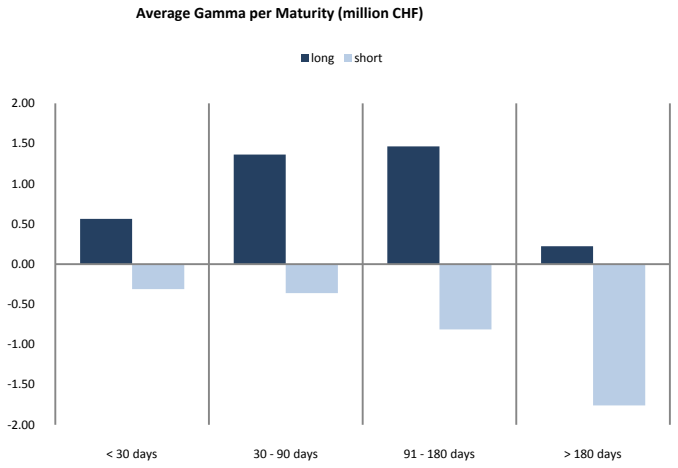
A large part of the risk capital is allocated to active option-based strategies. Therefore, Gamma and Vega exposures play a prominent role in our risk management and need to be monitored carefully. The figures below plot the daily net Gamma and Vega exposures since inception.

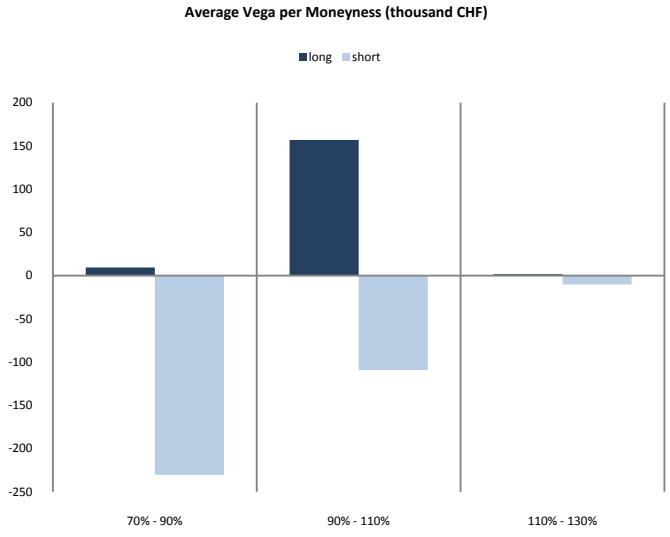


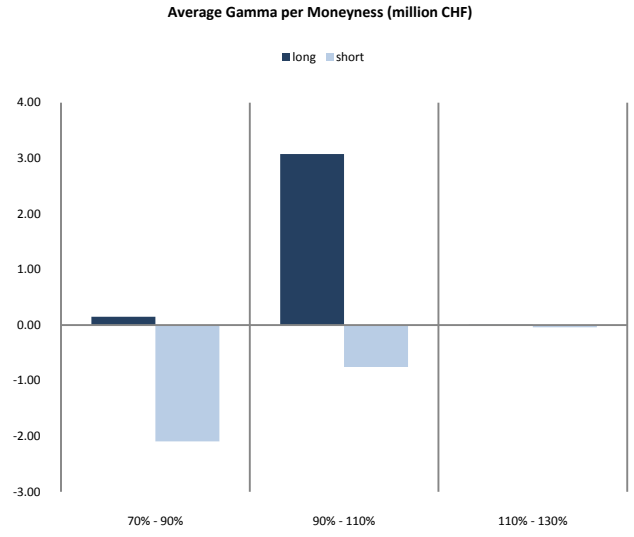


To provide more information about the nature of our Vega and Gamma exposures, we plot the maturity and moneyness buckets for the average daily Gamma and Vega positions in the figures below, split up into long and short positions.



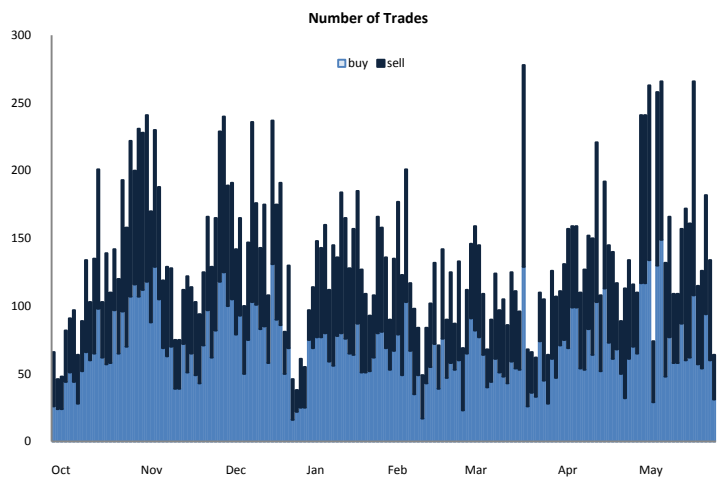


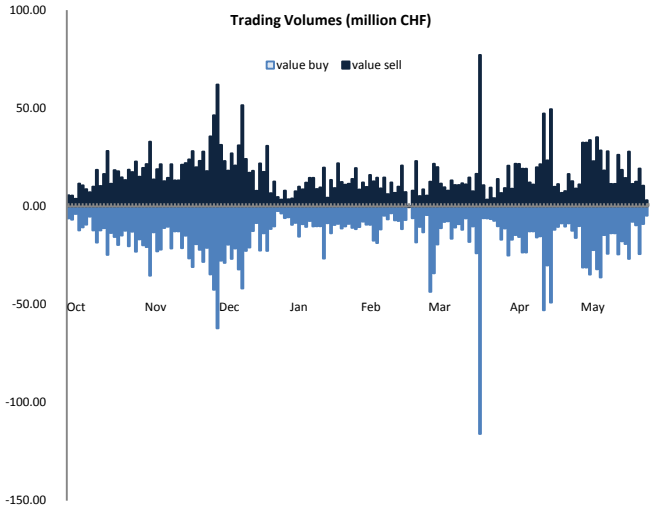




Daily Trading Activity

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





Additional Information

Strategy	Long-Short Delta Gamma Vega	**Assets under Management** (May 31, 2010)	57.5 million
NAV per Unit	101.29	**Redemption**	monthly/30 days notice
Management Fee	2%	**Performance Fee**	20%
Fund Structure	single fund, open-end	**Prime Broker/Custodian**	Credit Suisse
Equalisation	yes	**High-Water-Mark**	yes
Investment Advisor	lambda Capital Group	**Investment Manager**	Riverplus Management Company
Domicile	Cayman Island	**Auditor**	KPMG
Stock Exchange Listing	Irish Stock Exchange	**Valor/ISIN**	10263523/KYG759421053
Day of Inception	October 1st, 2009	**Share Class**	CHF

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