

# Riverplus Fund

## MONTHLY INVESTMENT REPORT June 2010

SHARE PRICE (June 30): 101.03  
NAV (June 30): CHF 57'732'114

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 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%

### A Comment on the Negative Performance

The month of June has proven to be a difficult month again. The HFRX Equity Hedge Index dropped by 1.38% and has now a disappointing year-to-date performance of -3.42%. Not only had the HFRX Equity Hedge Index a negative performance, but also the broader HFRX Global Hedge Fund Index (-0.94% for the month of June and -1.20% year-to-date).

These losses have their causes mostly in the second half of the month, when most equity indices turned negative. The EURO STOXX 50 Index fell more than 7% from its top on June 21, the SMI more than 6%. At the same time, there was not much change in both the realized and the implied volatility levels. Hence, volatility trading opportunities remained scarce, while delta risks played a dominant role. However, as already observed in the previous month, the implied volatility skew remained unusually high. This persistence in the steepness of the implied volatility skew indicates ongoing concerns and fragile market sentiments.

As to the worst performers in our portfolio, we were wrong on the delta side for our **UHR** position. Furthermore, in this title we were caught by a slight increase in volatility. For **BSLN**, some unexpected news hit the market after the Eurex expiration date. This news led to a sharp decrease of almost 25% in the stock price. This decrease resulted in a loss in our trading book as we were long delta and short gamma.

### Key Ratios\*

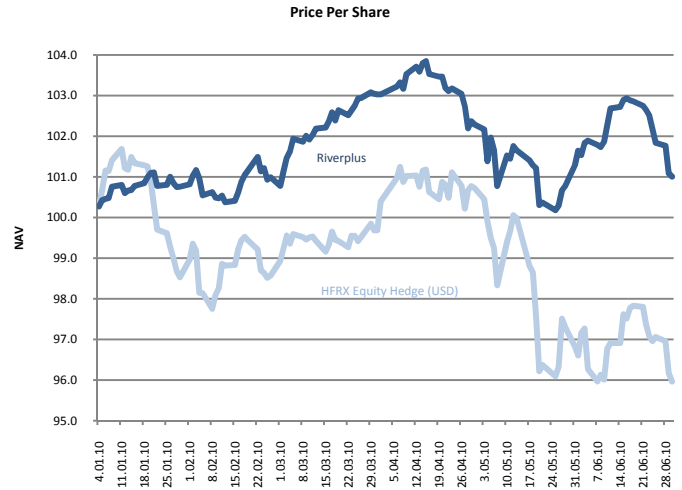
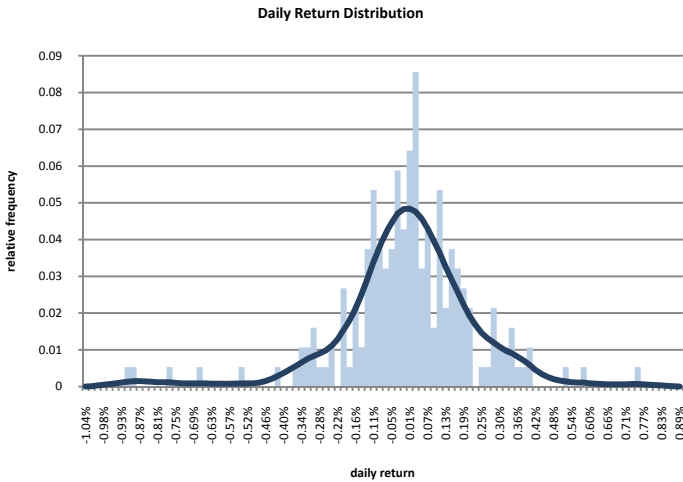
	Since Inception (Oct 1 <sup>st</sup> , 2009):	June 2010:
Annualized Volatility	3.46%	3.97%
Sharpe Ratio (bias corrected) <sup>1</sup>	0.38 (0.38)	-0.80 (-0.55)
Up vs Down Days	54%	41%
Shortfall Probability	46%	59%
Sortino Ratio	0.52	-1.09
Omega Ratio	1.07	0.87
Upside Potential Ratio	7.63	7.40
Top Performers		OERL, SMI, CLN
Top Losers		UHR, BSLN

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

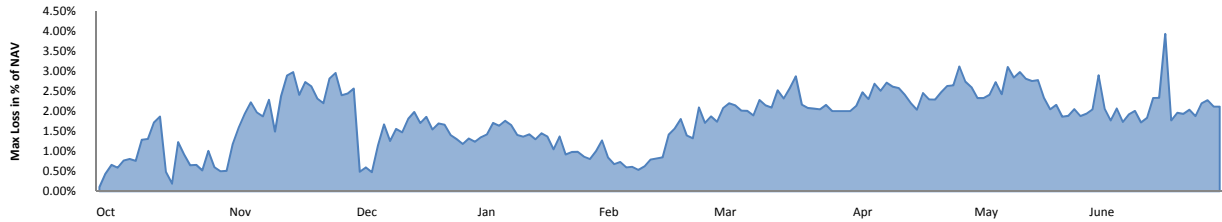
<sup>2</sup> For more details on the above performance measures, we refer the interested reader to the papers of Sortino, van der Meer, Plantinga (1999), "The Dutch Triangle," *Journal of Portfolio Management*, 25, 50-57; Keating and Shadwick (2002), "A Universal Performance Measure," *Journal of Performance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



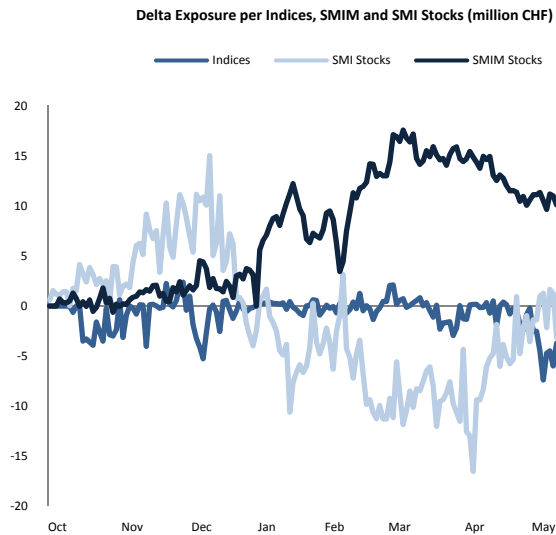
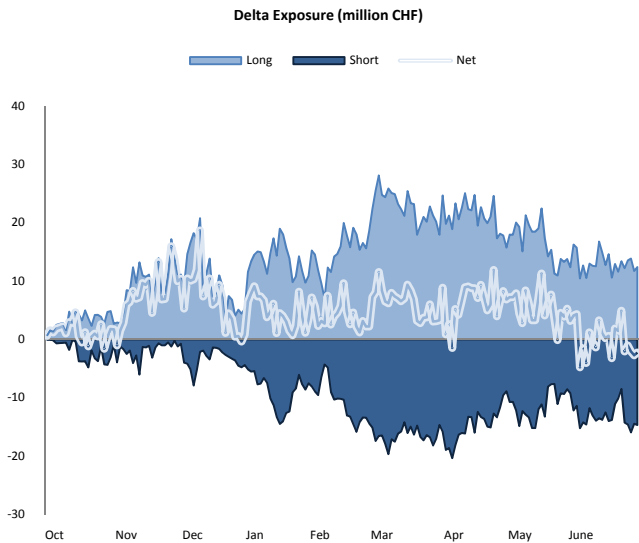
## Risk Exposure

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.

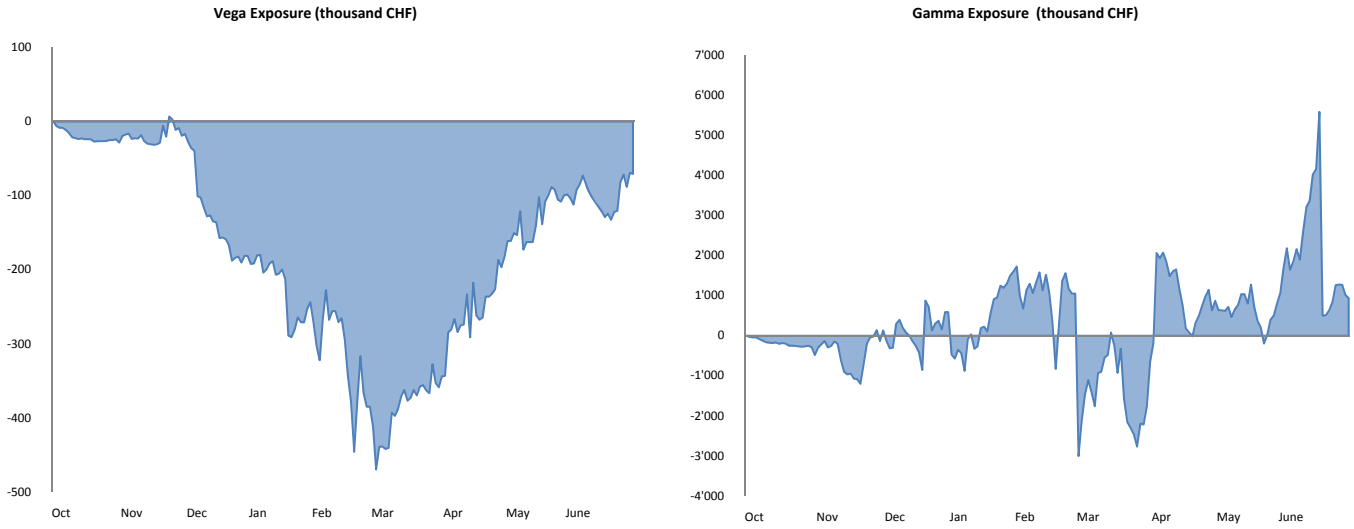


<sup>3</sup> For the daily return distribution, we plot the histogram together with a non-parametric density estimator based on Gaussian kernels.

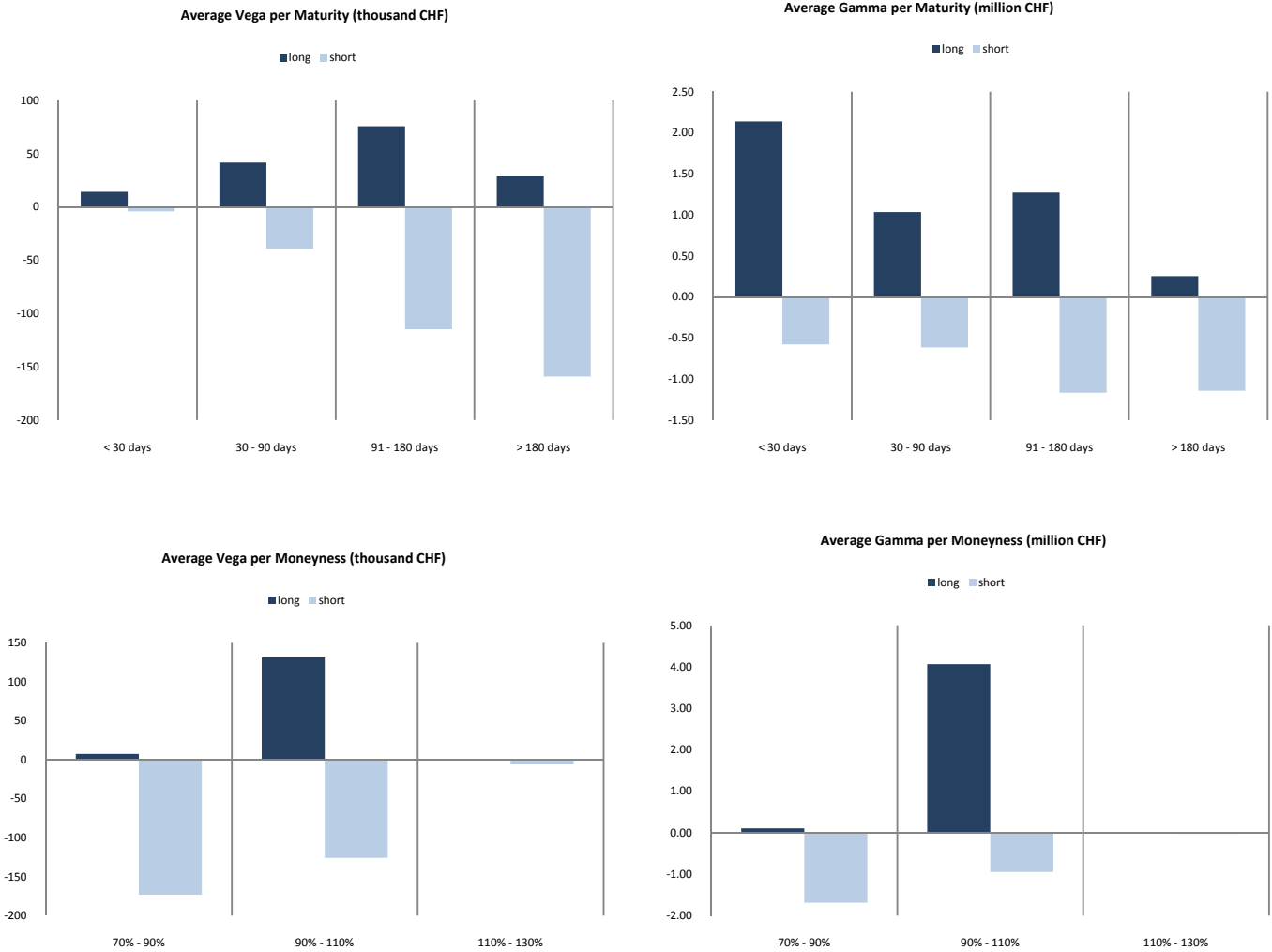
<sup>4</sup> See, Artzner, Delbaen, Eber, Heath (1999), "Coherent Measures of Risk," *Mathematical Finance*, 9, 203-228.

## 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.

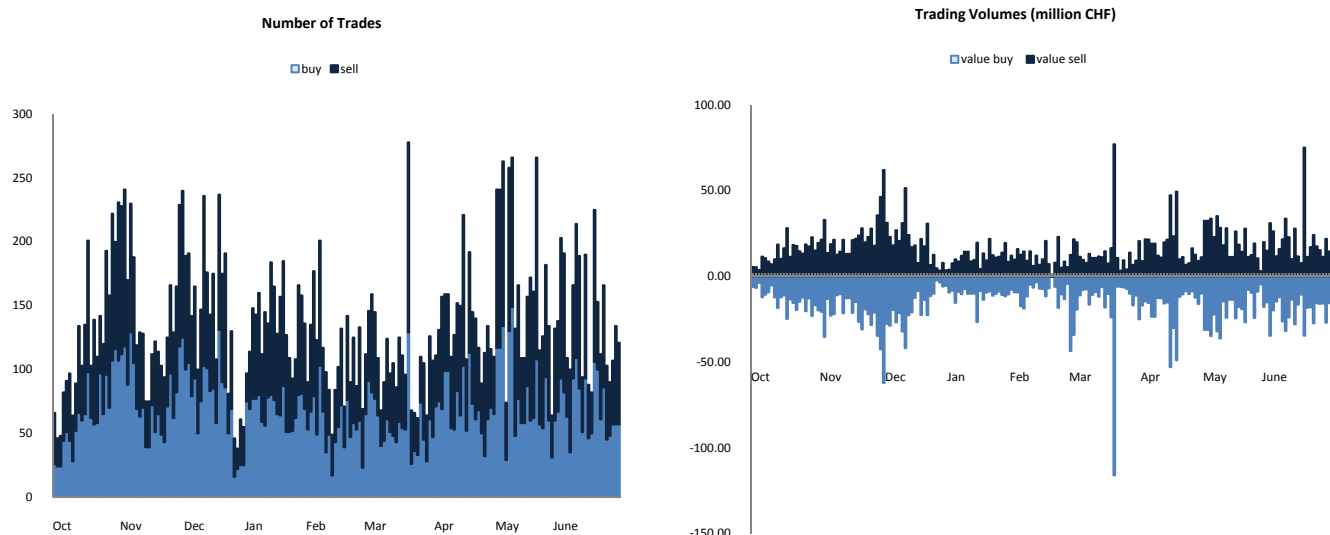


To provide more information about the nature of our Vega and Gamma exposures, we plot the maturity and moneyness buckets for the average daily Gamma and Vega positions in the figures below, split up into long and short positions.



## Daily Trading Activity

Riverplus is committed to a highly active trading strategy. Below we report the 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

<b>Strategy</b>	Long-Short Delta Gamma Vega	<b>Assets under Management (June 30, 2010)</b>	57.7 million
<b>NAV per Unit</b>	101.03	<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>Equalisation</b>	yes	<b>High-Water-Mark</b>	yes
<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 to 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.