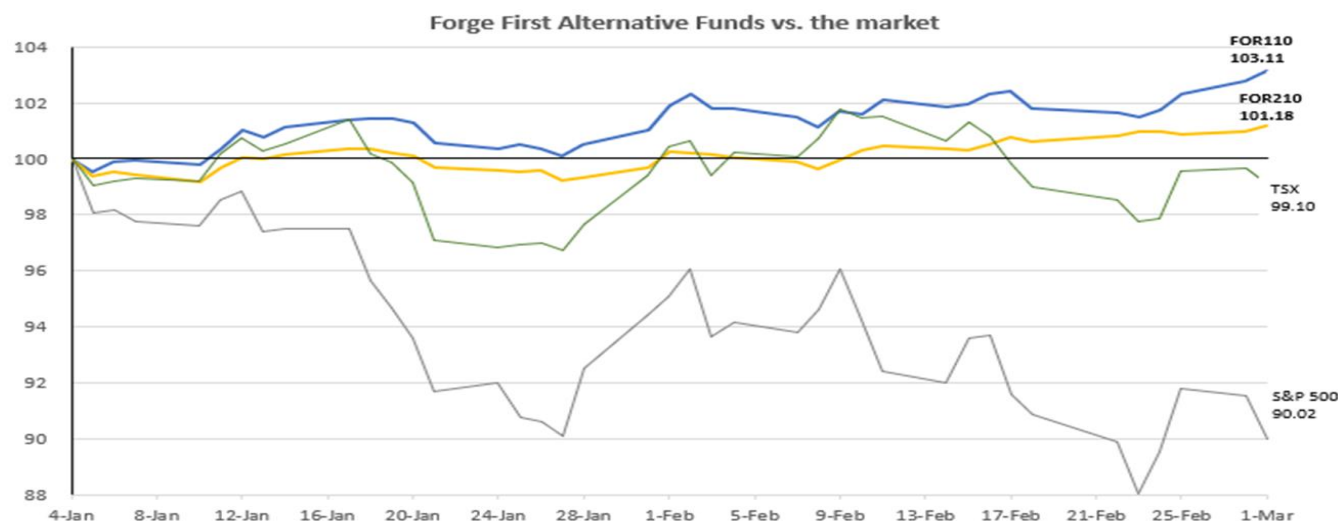


February 2022 Commentary

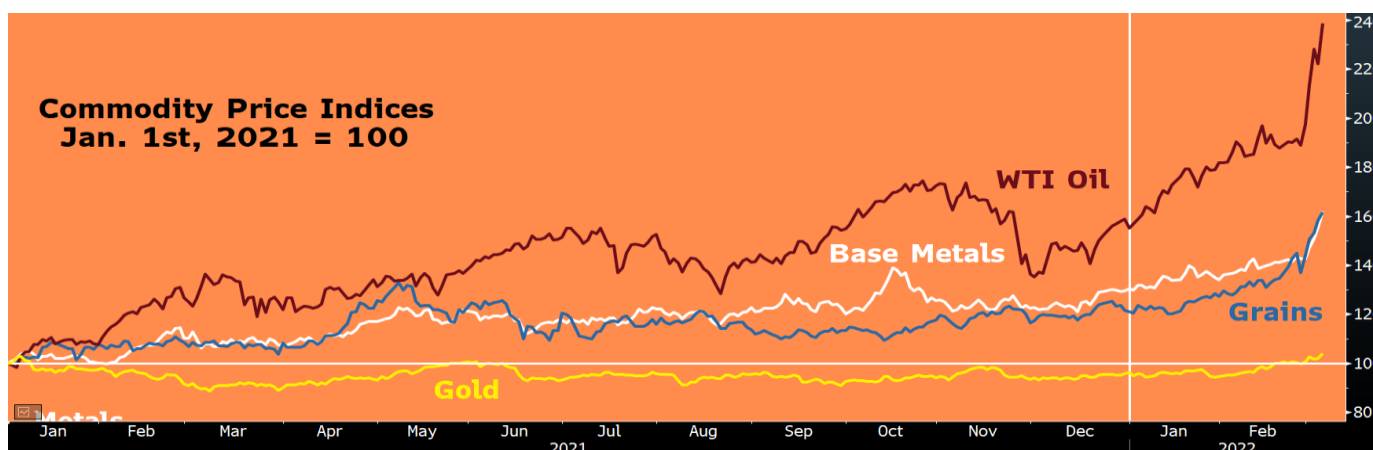
In our [2022 Outlook Commentary](#), we suggested policy accommodation had peaked last Fall such that markets would ultimately turn on investors as this year progressed, but in the short term, ample liquidity would enable stocks to be okay. We also wrote that our constructive outlook on energy commodities and the value versus growth factor style of investing would enable Canadian stocks to outperform U.S. equities. Then by mid-January, the Fed turned hawkish and ever since, most financial assets, especially U.S. growth stocks, have had a volatile and rough time. Our investment team adjusted our portfolios when the Fed u-turned, increasing both our short and put option exposures, while maintaining our allocation to cyclical and GARP stocks. Consequently, as displayed in the year-to-date, daily net performance graph of our alternative mutual funds which utilize similar investment strategies as our two LPs, the Series F of the Forge First Long Short Alternative Fund (FOR110) and Series F of the Conservative Alternative Fund (FOR210), our funds have exhibited stability and positive net returns through the end of February 2022.



The information contained herein is qualified in its entirety by reference to: (1) for Forge First Long Short Alternative Fund and Forge First Conservative Alternative Fund (the "Forge First Alternative Funds"), the most current simplified prospectus of the Forge First Alternative Funds and any documents incorporated by reference into the simplified prospectus; and (2) for Forge First Long Short LP and Forge First Multi Strategy LP (the "Forge First LPs" and with the Forge First Alternative Funds, the "Funds"), the most current offering memorandum of the Forge First LPs. These documents contain a detailed description of each Fund, including each Fund's objectives, strategies, and risk factors.

The Fed finally discarded the assumption that inflation was transitory, becoming downright fearful that broadening price pressures would prove their previous unwillingness to hike rates to have been a major mistake. Shortly thereafter, Russia attacked Ukraine and, as shown on the far right of the one-year graph below, commodity prices went ballistic. With few policy tools to fight stagflation (falling growth, rising inflation), the Fed is now in a tough spot.

¹ **DISCLAIMER:** This document is for information purposes only and does not constitute an offering memorandum. Readers of this information are expressly cautioned to seek the advice of a registered investment advisor or other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies, including those discussed above. Please review the most recent offering memorandum for a detailed description of Forge First's funds, the fund's strategies, objectives and risk factors. All information has been obtained from sources believed to be reliable; however, the information's accuracy cannot be guaranteed. The 2021 and 2022 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. All returns are in local currencies. Returns expressed in this commentary are "time-weighted" and are not the same as mandated "money-weighted" returns used in the production of client statements effective December 31, 2015. The return figures for the S&P 500 and the TSX are based on the "Total Return" figures of the associated index. Annualized Volatility, Correlation, Alpha, Beta, and Sharpe Ratio are calculated from monthly net returns for the Class F Lead Series of the Limited Partnerships since August 1, 2012. The Sharpe ratio is hypothetical and is calculated using monthly standard deviation and a 1% risk-free rate. Class F is the Founders Class and has a reduced fee structure. The Forge First Limited Partnerships are currently open to Canadian investors who meet certain eligibility requirements. Please contact Forge First Asset Management Inc. to request the offering documents and to speak with a registered dealing representative. Past performance is not indicative of future results.



Source: Bloomberg

The unthinkable and tragic events in Ukraine have changed the forward calculus of financial markets. Hence, this commentary will revisit the scenario analysis discussed in our outlook commentary. But first, let's review the February performance of our funds.

The Class F Lead Series of our Long Short LP gained +1.98% net of fees during February, boosting its year-to-date post-fee return to +3.48%. The Materials sector was a major source of gains for the portfolio led by holdings in the Agricultural sector, specifically Nutrien Ltd. (NTR.CA), Archer-Daniels-Midland Co. (ADM.US) and Bunge Ltd. (BG.US). Since the end of February, we have sold our positions in ADM and BG, given our concern that spiking grain prices may hurt the margins of these processing companies. Our January shift to a bullish stance towards gold was one of the Fed-driven pivots alluded to at the start of this note that paid off, as shares in Gold and Base Metal companies also delivered positive contributions. The fund continues to own shares in Agnico Eagle Mines Ltd. (AEM.CA), Royal Gold Inc. (RGLD.US), Freeport-McMoran Inc. (FCX.US) and a call spread in Barrick Gold Corp. (GOLD.US).

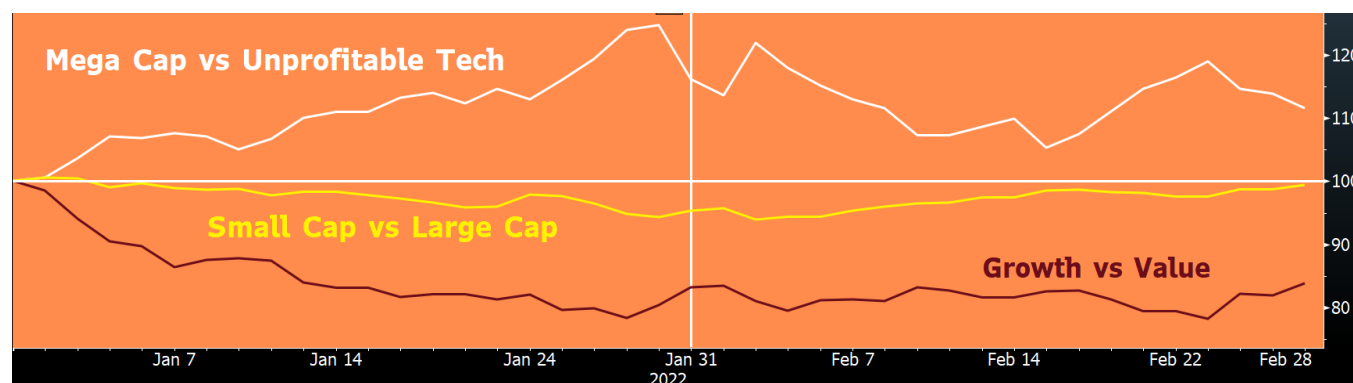
It is also no surprise that our ongoing constructive stance on Energy stocks boosted the performance of the fund, as did our positioning in the Real Estate, Financial and Consumer sectors. We continue to see many short selling opportunities in the Consumer sector. The Industrial and Technology sectors were the largest losing sectors for the month. Within Tech, Meta Platforms Inc. (FB.US) generated the largest loss, though fortunately we owned put options against the position, hence a majority of the loss was offset by gains on our puts. We have since sold the position in Meta. The fund exited February with delta-adjusted gross and net exposure of 124% and 49% respectively.

	YTD	1 mo	3 mo	6 mo	1 year	----- Annualized -----		
						3 year	5 year	Inception
Forge First Long Short LP (Class F Lead Series)	3.48%	1.98%	2.74%	4.44%	11.01%	14.63%	11.68%	15.72%
Forge First Multi Strategy LP (Class F Lead Series)	1.18%	1.50%	0.29%	1.07%	5.29%	11.53%	8.59%	11.72%
TSX Total Return	-0.13%	0.28%	2.92%	3.97%	20.09%	13.06%	9.78%	9.63%
S&P 500 Total Return (US\$)	-8.01%	-2.99%	-3.89%	-2.62%	16.39%	18.24%	15.17%	15.05%

Note: Returns for the Forge First funds are based on the August 2012 Class F Lead Series and are net of all fees and expenses. In a year, up to 12 series can be created within a Class of units. Unitholders are advised to refer to their monthly statement for the net return of their respective Class and Series. All returns are in local currencies.

The Class F Lead Series of our lower volatility, multi-asset Forge First Multi Strategy LP gained +1.50% net during the month of February, fuelled by gains in each of its three sleeves: capital growth, alternative strategies and asset protection. Year to date, this LP has gained +1.18% net of fees. Similar to the Long Short LP, Energy and Materials drove the gains in the capital growth or common equity sleeve of this fund. The alternative strategy portion of this portfolio benefited from both convertible and straight bonds, including a short position in government bonds. Finally, various put option positions and increased ETF short exposure, enabled the asset protection sleeve of the portfolio to also deliver a positive contribution. This fund exited February with delta-adjusted gross and net exposure of 132% and 33% respectively. The 33% net long exposure was split between equities (+22%) and alternative strategies (+11%).

In contrast, U.S. markets suffered a 2nd consecutive losing month, while Energy and Materials enabled Canada's TSX to squeeze out a tiny gain.



Source: Bloomberg

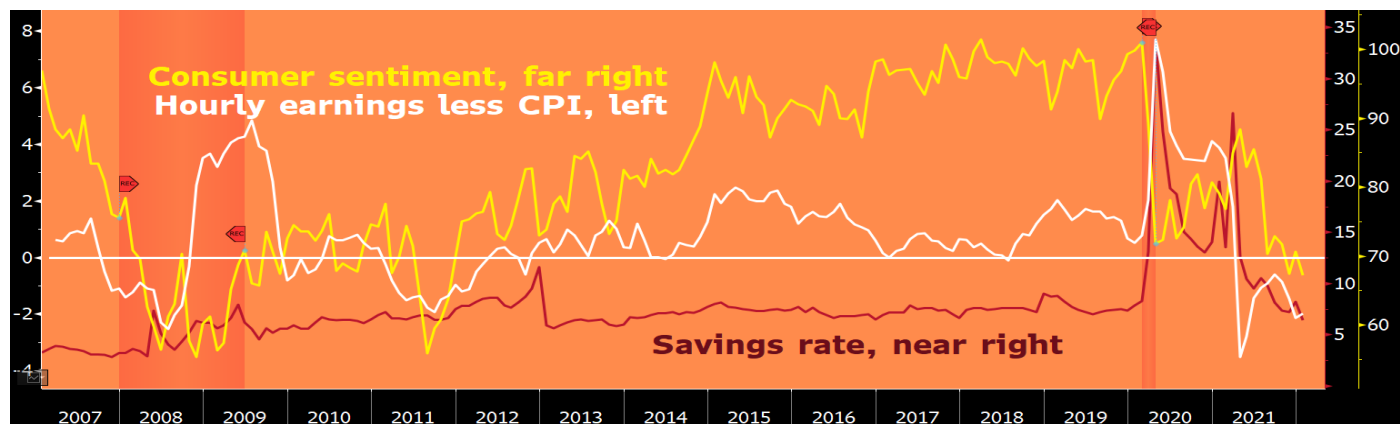
With this context, the above year-to-date indexed graph of various relative strength indices highlights that, as of late January, aside from Resource sectors, equities have been acting akin to a stock market versus a market of stocks, in other words, under pressure across the board. No factors materially outperformed other factors.

As of March 4th, Energy and Materials account for 29.6% of the TSX versus Banks at 22.4% and Shopify Inc. (SHOP.CA) at 2.8% (down from roughly 7%). South of the border, Tech stocks combined with Amazon.com Inc. (AMZN.US), Alphabet Inc. (GOOG.US) and Meta Platforms Inc. (FB.US) approximate 36% of the S&P 500, down from just over 40% last year. In contrast, Banks and Energy each represent 4% of the S&P 500. The 10-year graph below compares the yield spread between the S&P 500 and a 10-year U.S. Treasury bond (purple line, left axis) against the price to earnings (P:E) multiple for each of the S&P Growth and Value indices and the broader index itself. It's a crowded graph, but a couple of items are apparent.



Source: Bloomberg

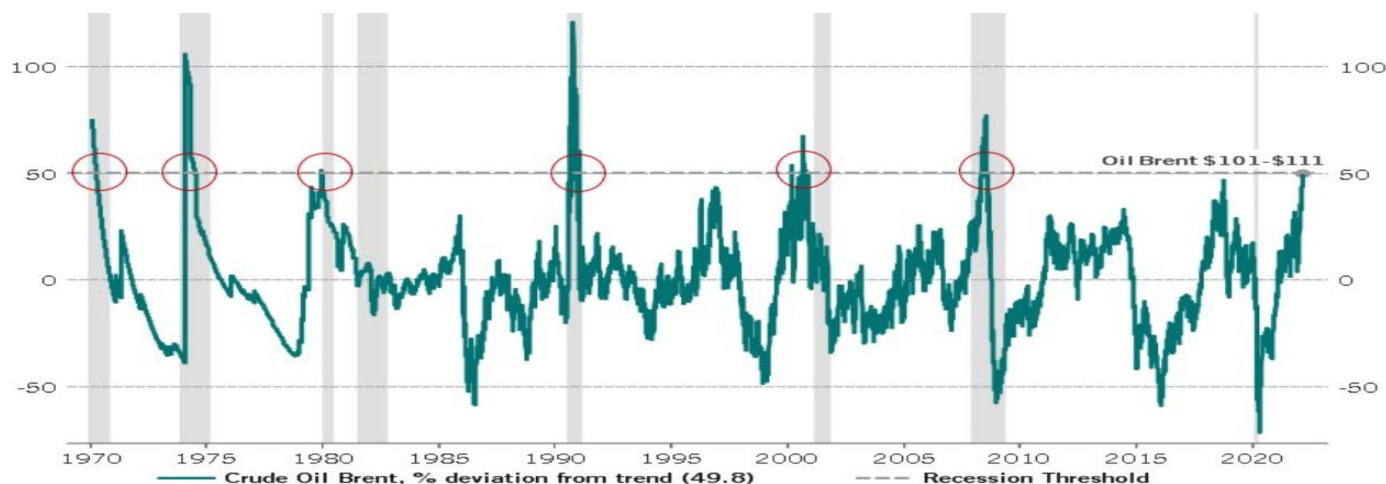
First, P:E multiples tend to rise when the purple line goes up and fall when the purple line declines. These relationships are logical, since a rising purple line indicates the relative yield of equities is increasingly favourable relative to the yield on the government bond. Second, despite the pressure of the past two months, the multiple on the Growth index (red line, right axis) remains elevated compared to its pre-2020 levels while the P:E multiples for the S&P 500 (yellow line) and the Value index (white line) are now proximate to longer-term levels. Many variables, including interest rates, will determine where these multiples go from here. In turn, interest rates will be determined by the outlook for inflation and the health of the economy. Let's start by looking at the outlook for the U.S. economy.



Source: Bloomberg

Consumer spending represents almost 70% of the U.S. economy and the above 15-year graph highlights that the American consumer is not feeling particularly confident (yellow line, far right axis) at this juncture. Year-over-year 'real' hourly earnings (white line, left axis) are negative and the savings rate (red line, near right) has normalized back to historical levels. In addition, 30-year mortgage rates have climbed 125 basis points during the past year, and gasoline prices reached US\$4/gallon for the first time since 2008. The outlook for the consumer is fading!

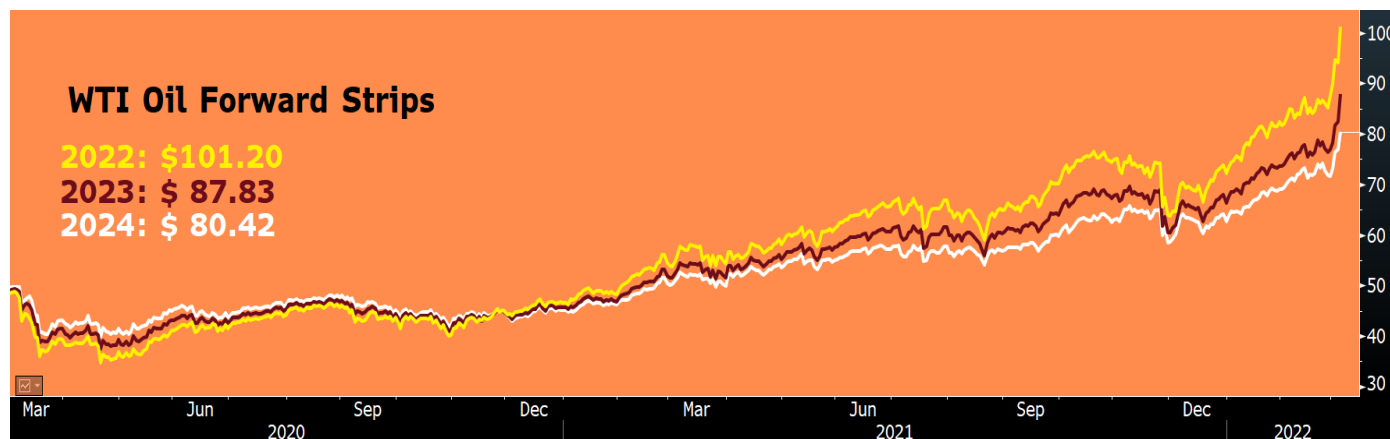
Speaking of energy prices, the graph below, courtesy of The Daily Shot, suggests there is a high probability of a recession. The green line charts the "percent price deviation from trend" of Brent oil with the shaded vertical bars marking recessions. Note how since 1970 each time the Brent has reached 50 on the vertical axis, we have experienced a recession. Of course, this graph and the comment about US\$4 gasoline were prior to the last 10% move higher in strip oil prices late last week.



Source: The Daily Shot

The invasion of Ukraine and the subsequent economic sanctions against Russia have served to exacerbate the existing supply-demand imbalance for oil. While this scenario is short-term bullish for energy equities, we expect it will ultimately hasten the world's resolve to reduce its dependence on hydrocarbons. But for now, higher-than-expected oil prices are unavoidable, as even with a de-escalation of combat in Ukraine, Russia is likely to remain an economic pariah.

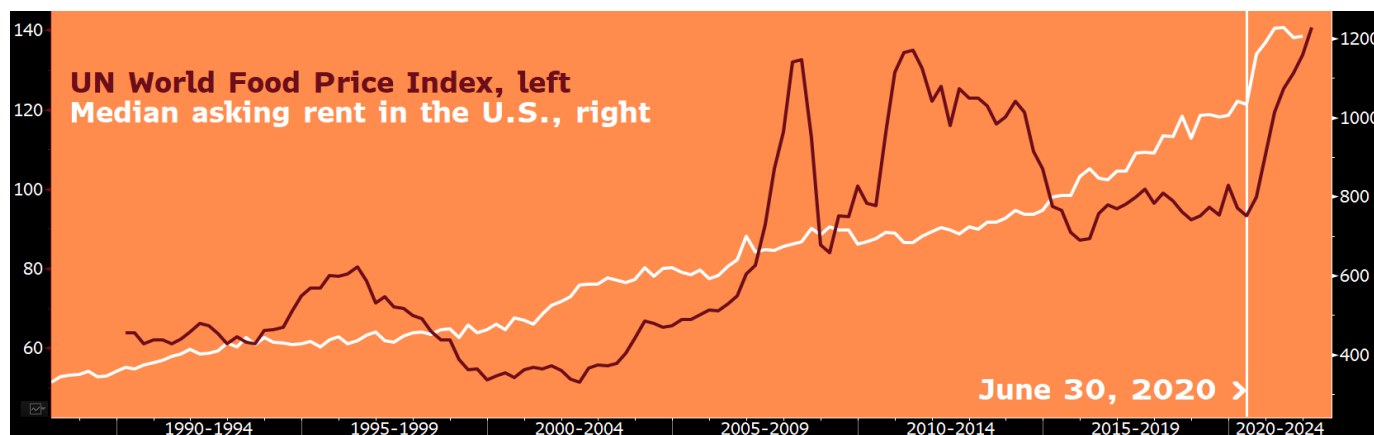
Russia produces more than 10% of global oil supplies (20% of natural gas) with daily exports of 6.5M barrels. Last week, we read reports suggesting nearly half of this total is failing to find buyers, even at a purported US\$25 per barrel discount.



Source: Bloomberg

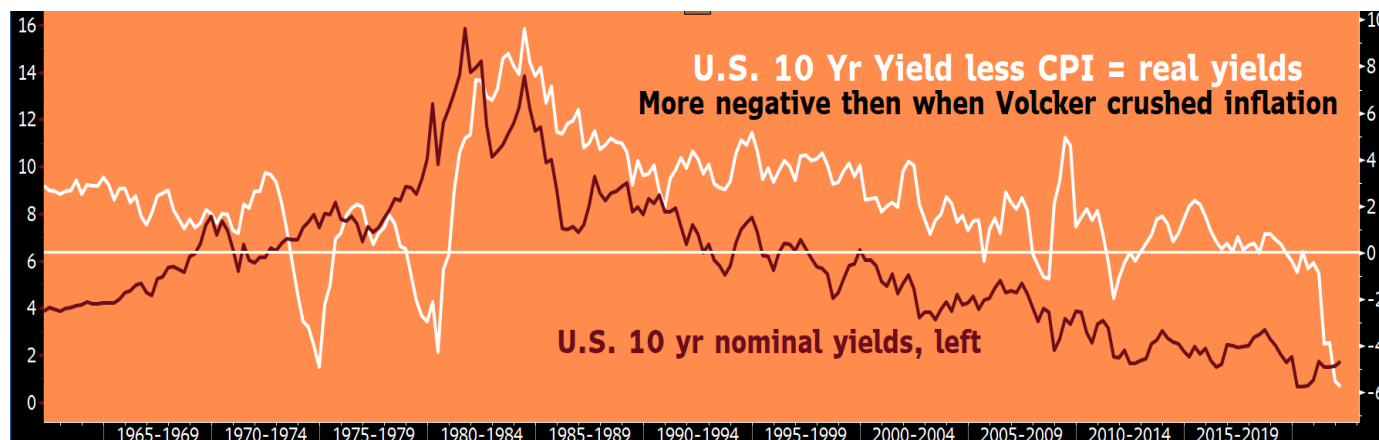
It's an understatement to say it won't be easy to replace this oil. Quarterly results from energy companies have stated their increased capital spending is merely to maintain current levels of production. Similar CAPEX woes explain why the majority of OPEC+ countries are not able to produce existing quotas, and that includes Russia. Meanwhile, the demand for oil sits at an all-time high. This combination of factors has even pushed the 2024 WTI oil strip above US\$80, while the spot price for Western Canadian Select crude now exceeds C\$130 a barrel. Top ten holdings for each of our funds continue to include Tourmaline Oil Corp. (TOU.CN), Canadian Natural Resources Ltd. (CNQ.CN) and Cenovus Energy Inc. (CVE.CN). These companies have long-life, low-cost reserves and industry-leading initiatives on the ESG front.

Shifting back to the consumer, note in the 30+ year graph below how, since June 30th, 2020, the pace at which rental rates (white line, right axis) and food prices (red line, left axis) have been rising has accelerated. Hence, when you add surging energy prices to the relentless rise in the price of these two necessities, there's little doubt discretionary consumer spending is poised for a material slowdown. We're also of the view that the existing reduction in policy stimulus will lead to declining PMI indicators by mid-2022. We believe North America and the E.U. are headed towards a recession.



Source: Bloomberg

Meanwhile, just because a recession is on the horizon doesn't mean Central Banks will be able to close their eyes to troublesome rates of inflation. For example, the initial rise in oil prices generates high levels of inflation as a climb in the price of oil from \$50 to \$90 equals a rise of 80%, yet a further gain to \$100 is a hike of only 11%. Hence, it's to be expected that the headline rate of inflation will flatten or more likely fall as we progress towards the end of 2022. The question is whether inflation becomes too hot, or even too stubbornly high, for Central Banks, even if faced with a looming recession.



Source: Bloomberg

The 60-year graph above illustrates that “real” yields (white line, right axis) are more negative today than they were at the start of the 1980s when Fed Chair, Paul Volcker, crushed inflation with punishing rate hikes. Yet nominal yields (red line, left axis) remain near record-low levels. Hence, the addition of swelling commodity prices to existing inflationary pressures from supply chain related issues and last year's gargantuan fiscal and monetary stimulus, puts Central Bankers in a real bind. We foresee four potential scenarios for the market:

- 1) Miraculously, the Ukraine situation de-escalates, the world decides to keep buying Russian oil, pushing oil prices markedly lower. Existing supply chain issues are resolved and inflation falls to targeted Fed levels by Labour Day. Markets are too aggressive on pricing in Fed rate hikes, strength in the USD fades and consumer spending remains okay. Credit spreads tighten and stocks enjoy a strong H2 2022 with growth outperforming value and the S&P 500 rallies back towards 5000. [LOW PROBABILITY]
- 2) 2022/2023 oil prices remain above US\$75, supply chain issues persist into 2023, and inflation forces Central Banks to maintain the pace of six-seven rate hikes currently priced into markets. The USD slips from current levels, credit spreads widen, value continues to lead growth, albeit at a slower pace, U.S. market averages rally back to being either side of flat for the year. The TSX outperforms the S&P 500. [ABOVE AVERAGE PROBABILITY]
- 3) Commodity prices, including oil, stay problematically higher, exacerbating ongoing supply chain issues confirming that Central Banks are far behind the curve. Central Banks have to accelerate the pace of rate hikes, pushing the economy into a recession. This is the ‘left tail risk’ that long only investors are not positioned to withstand. Credit spreads blow out and the price of stocks and bonds get punished. [RISING PROBABILITY & VERY PAINFUL]
- 4) Commodity prices and inflation stay high, yet witnessing slowing economic growth, Central Banks pivot, ending rate hikes. Stocks, led by growth, rally then fade as markets realize the pivot was driven by a pending recession that leads to falling profits in 2023. Cyclical stocks decline markedly, while bonds, GARP and ‘bond proxy’ stocks rally. Overall, market averages are flat to down. [AVERAGE PROBABILITY]

Regardless of which of the above scenarios coincides with your view, we expect you'll agree that the invasion of Ukraine has changed the outlook for markets. This war is likely to boost already high rates of inflation. Rising inflation will lead to higher interest rates, which in turn pushes P:E multiples (still in 87th percentile) lower. Meanwhile, we've shown you the consumer has already run out of gas. Hence, at best, higher inflation will shorten the economic cycle if not push the economy into a recession. Bonds are unlikely to provide safety. We expect credit spreads to further widen out. People say short selling is risky, but we believe we've moved into the period of the market cycle where long only investing is risky.



Our 9.5-year track record speaks for itself. The investment team at Forge First is adept at short selling and using listed options for both defence and offence. At the same time, our free cash flow, large cap, high quality focused style of North American investing has stood the test of time in contrast to momentum or other styles of investing that have their ‘15 minutes of time in the sun’ during every market cycle.

Thank you for your business and interest in our funds. For more information, please visit our website at www.forgefirst.com or call us at 416-687-6771 should you have any questions.

Andrew McCreath
President and CEO

Daniel Lloyd
Portfolio Manager

Keenan Murray
Portfolio Manager

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