FORGE FIRST ASSET MANAGEMENT INC

March 10, 2025

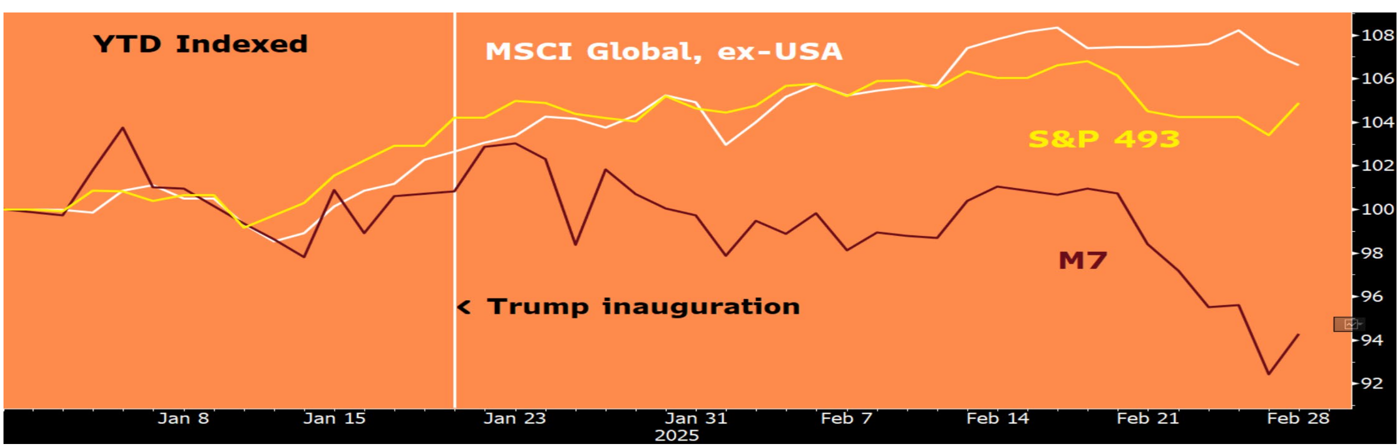
February 2025 Commentary

Similar to the grade 12 student beating up on the seventh grader, at the time of writing this note on March 2nd and despite the reality that many of his facts are wrong, President Trump appears intent on picking on Canada and sowing uncertainty. Aside from "the Donald being the Donald", this note will table one possible reason for these actions but first let's wrap up the month in markets and the performance of our funds.

The graph below explains why the final numbers for February were flattered by the end of day trading in stocks and bonds on the last day of the month. The right side of the vertical white bar on the intra-day graph below displays the last 30 minutes of trading. The S&P 500 gained +1.8% during this timeframe, helped handsomely by a month end pension rebalancing that caused US$13B of stocks to be bought into the close. Consequently, the SPX U$, which otherwise would have closed in the red for the year-to-date, ended down just -1.30% on a total return basis for February and +1.44% year-to-date (YTD).

Source: Bloomberg

Excluding the M7 stocks, the SPX would have enjoyed a total return gain of +0.41% for the month and +3.27% YTD. Here at home, somewhat surprisingly, Canada's S&P/TSX suffered only minor losses thanks to gains in 'bond proxy' stocks, i.e., Utilities and Telcos, along with securities in the Consumer Discretionary and Materials sectors. Across broader markets, momentum longs and AI trades have been distinct laggards YTD. The graph below starts on January 1st, 2025, with the date President Trump took office denoted by the white vertical line. As you can see, once the "Executive Orders" began to be issued, investors experienced an increase in market dispersion. The M7 stocks (dark red line) have markedly underperformed while the S&P 493 (yellow line) has also lagged the MSCI Global, ex-USA index (white line).



Source: Bloomberg

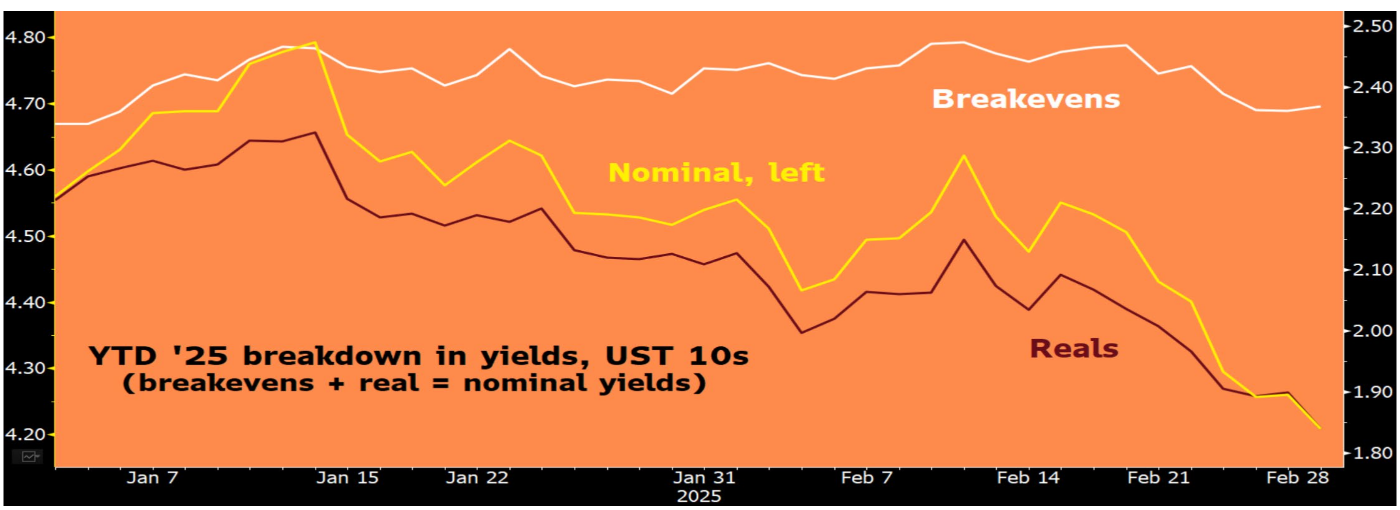
During the month of February, our Long Short LP advanced while our Multi Strategy LP experienced a loss. The Class F Lead Series of our Long Short LP climbed +0.45% net of fees such that its YTD net return at month end was +0.21%. The relevant performance of the equity sleeves was mixed with the bulk of the positive alpha being driven by the hedge book, Utilities, and Financials. Technology was the sore spot, including Taiwan Semiconductor Manufacturing Company Ltd. (TSM.US) and an ill-timed Semiconductor ETF hedge, VanEck Semiconductor ETF (SMH.US). In contrast, the rate sensitive part of the book featuring Utilities, REITs and Telcos helped performance. As of February 28th, the fund held a delta-adjusted gross and net exposure of 131% and 63% respectively.

As of February 28, 2025	YTD	1-mo	3-mo	6-mo	-----------------Annualized---------------- 1-year	3-year	5-year	10-year	Inception
Forge First Long Short LP (Class F Lead Series)	0.21%	0.45%	1.33%	4.16%	12.67%	5.06%	10.66%	8.52%	13.08%
Forge First Multi Strategy LP (Class F Lead Series)	-1.78%	-1.76%	0.28%	8.03%	14.46%	8.07%	11.25%	7.59%	10.84%
S&P/TSX Composite Total Return Index	3.06%	-0.40%	-0.31%	10.31%	22.45%	9.72%	12.72%	8.49%	9.65%
S&P 500 Total Return Index (C$)	1.80%	-1.04%	2.14%	13.47%	25.92%	17.51%	18.56%	14.61%	17.82%

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.

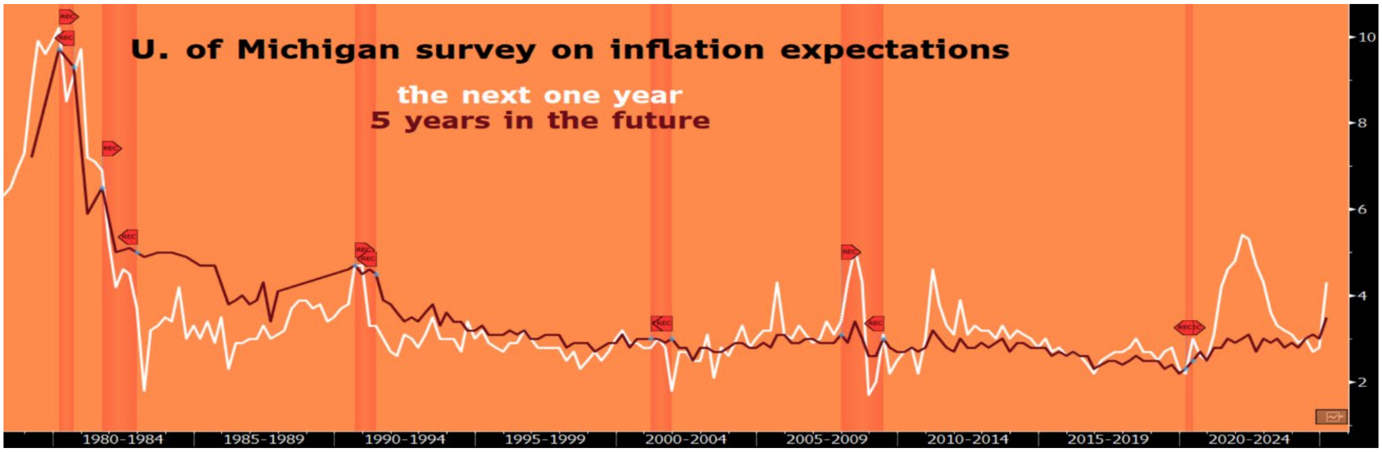
The Class F Lead Series of our Multi Strategy LP fell -1.76% last month such that its YTD loss sits at -1.78% net of fees. While the asset protection (options) and fixed income sleeves of the fund generated positive returns, these gains were more than offset by losses in the common equity book. In fact, February was only the 11th month in the past 50 months that attribution in equities was negative. Positions in the Financial and Utility sectors helped the fund while net exposure to Technology and Consumer companies, both Discretionary and Non-Discretionary, hurt the performance of this fund. All else being equal, investors should expect the net exposure to equities to increase in the event of a more meaningful pullback in equity indices. As for the end of February, the fund held delta-adjusted gross and net exposure of 208% and 72% respectively, with the net exposure split between multi-assets (30%) and common equities (42%).

We know President Trump has shown himself to be a disruptive source via his verbiage, executive orders, and policies. He has also clearly enunciated his desire for lower interest rates yet given the apparent pause in disinflationary trends (most recent core PCE at 2.8%) amidst decently resilient economic growth, to date the Fed has not appeared to be in a hurry to further cut interest rates. In addition, up to Trump's date of inauguration, there was much investor enthusiasm that the focus of this administration would be on tax cuts and deregulation, two variables assumed to boost both growth and inflation. In contrast, the administration has been more focused on tariffs, immigration and cutting spending. The results of this surprise shift in the calendarizing of priorities on markets has been a 50 bps decline in yields and the "round-tripping" to pre-election levels of many of the "presumed Trump equity trades". With respect to bonds, note in the YTD graph below how breakeven yields (white line, right axis) have traded sideways while the entire decline in nominal yields (yellow line) has been attributable to the fall in real yields (red line, right axis).



Source: Bloomberg

The other effect of this shift in the chronology of policy introductions has been to unsettle the average consumer regarding their outlook for growth and inflation; and remember, when it comes to economics, perception often becomes reality. We've known of the "K-shaped" U.S. economy for a while now, one in which the beneficiaries of fiscal largesse, AI-driven capital spending, and upper income consumption have been driving the bus while the remainder of the U.S. economy has been stuck in neutral (or worse). But now aggressive cost-cutting within the Federal government and all the talk about tariffs has consumers on edge about the outlook for both economic growth and inflation. The 45-year graph below (shaded vertical bars denote recessions) compares consumer expectations for inflation during the next year (white line) against five years in the future (red line). Note from the far-right side that forward 12-month expectations for inflation now exceed 4%.



Source: Bloomberg

Consumers on edge rein in spending, and last week the Atlanta Fed GDPNow forecast for Q1 2025 was cut from +2.3% to -1.5%! In fact, the uncertainty created in recent weeks has caused a marked slowdown in many U.S. economic statistics. Given all the verbal beating up of Canada emanating from Washington, D.C. who would have thought the far-right side of the 7-year graph below of economic surprise indices for Canada (white line) and the U.S. (red line) would have Canada tabling the beats versus the misses south of the border.

Source: Bloomberg

Through DOGE and talk, we understand that Bessent and Musk are trying to reduce yields on long term bonds so as to enable Bessent to extend the duration of Washington's gargantuan deficit. Yet, more speculative is our wondering whether, given the job cuts being driven by DOGE, Trump is purposely trying to further depress consumer sentiment in an attempt to force the Fed to cut interest rates after which he'll "juice up the system" with a shift in focus to more stimulative policies. While this may have been an outlandish thought, only time will tell. By the way, the next Fed meeting is March 18-19th.

While we do not believe the AI-beta trade is over, after two years of explosive AI-tech performance we believe investors must be more selective in the selection of their securities as evidence suggests market leadership is changing. Catalysts for this evolution could include the magnitude of AI capital spending, the question of whether given the disruptive potential of AI, the big Tech incumbents will maintain their dominant positions and the 'law of large numbers' as it pertains to prospects for forward growth.

In addition, the uncertainty created by President Trump could have significant repercussions for financial markets, but be assured the team at Forge First will stick to its discipline that includes market hedges, a good-sized short book, and a quality GARP/value-bias among our long positions. We believe slow and steady wins the race.

Please let us know if you have any questions and thank you for your business!

Andrew McCreath	Keenan Murray	Richard Roth
CEO	CIO, Portfolio Manager	Associate Portfolio Manager