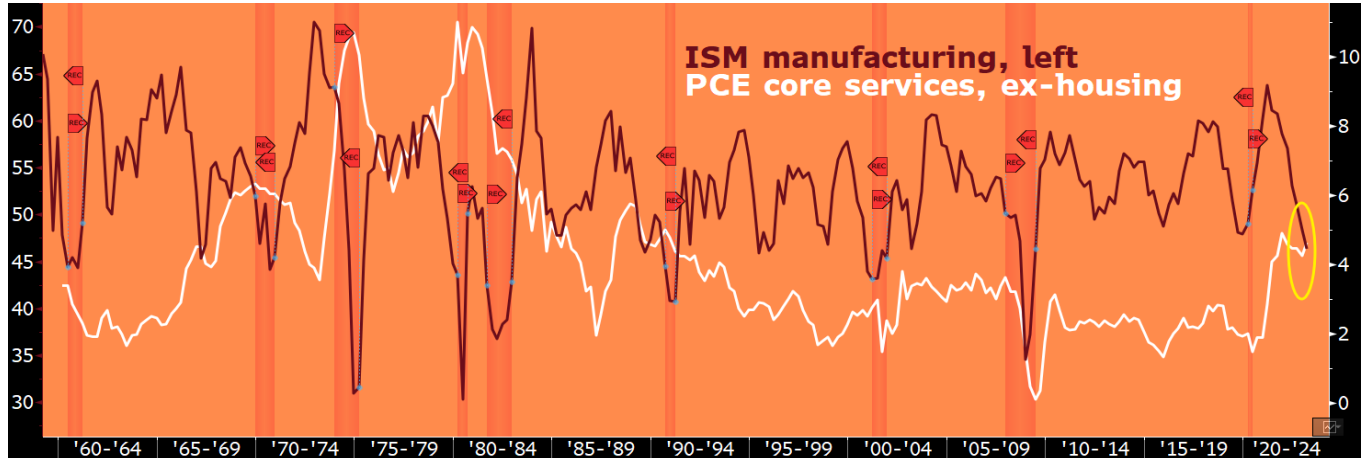


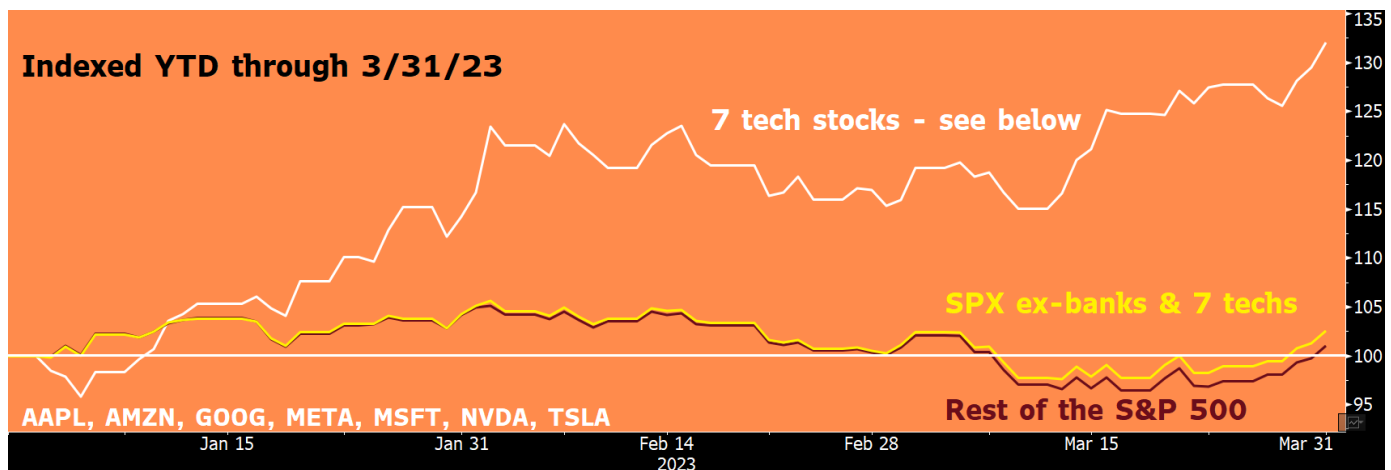
March 2023 Commentary

A confluence of factors continues to catalyze choppy, rangebound markets as investors strive to determine whether the Fed will be able to bring inflation under control prior to the U.S. economy falling into a recession. The convergence of the two lines inside the yellow oval on the far right of the 60+ year graph below speaks to this dilemma facing fundamental investors. On the one hand, the Fed's main inflation metric surprised last month (white line, right axis) to the upside, while last week's ISM Manufacturing Index (red line, left axis) screamed recession.



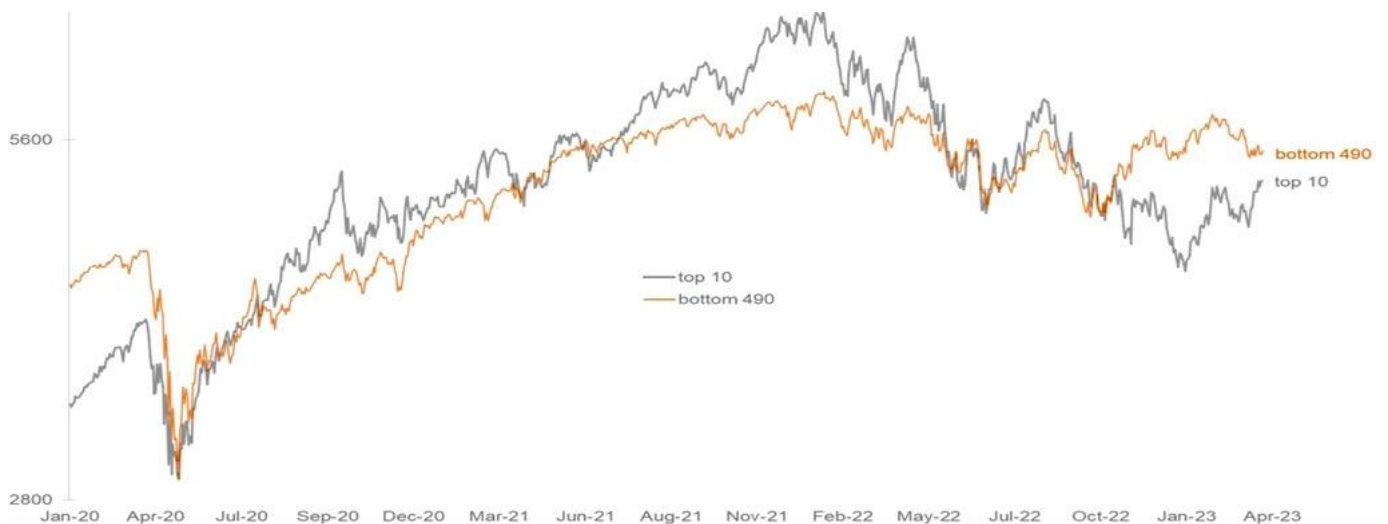
Source: Bloomberg

This macro story is likely to resolve itself during the next few months; a topic we'll address in this commentary, but for now, let's shift to the volatility exhibited last month by financial markets. After market close on Wednesday, March 8th, early-stage tech lender and the 16th largest bank in the U.S., SVB Financial Group (SIVB.US) disclosed it was toast! Reactions were swift, as the Fed and the U.S. Treasury Department instantaneously brought out their heavy artillery to safeguard the system. The Fed printed money, while the government captained mergers and guaranteed the savings of affected depositors. The immediate actions of the authorities enabled non-bank stocks to stabilize very quickly, while yields on USTs dropped like a stone.



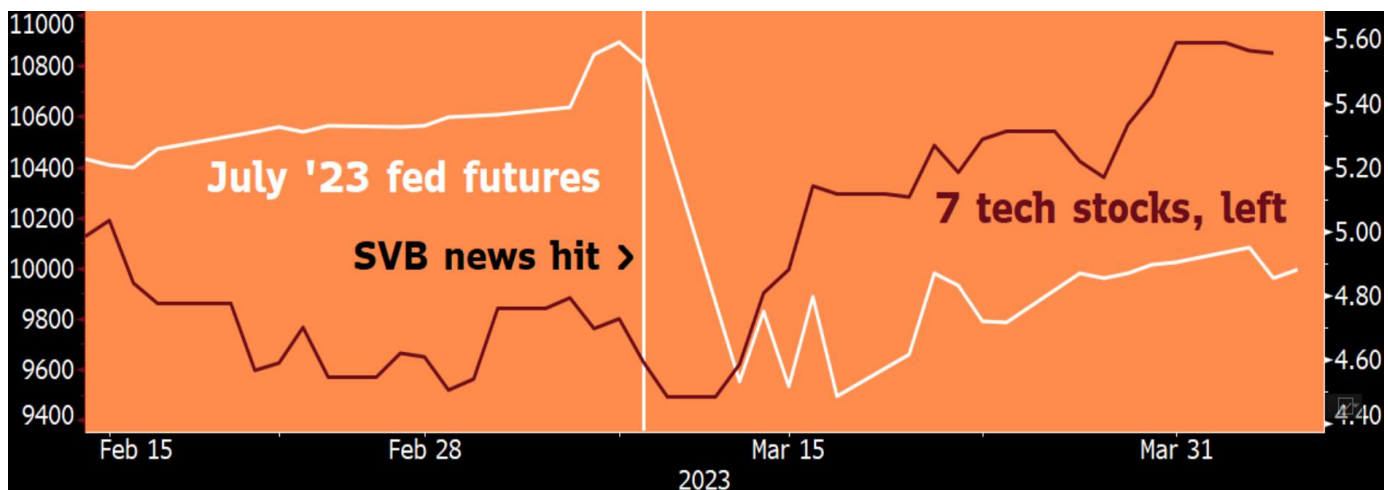
Source: Bloomberg

As can be seen from the year-to-date indexed graph above comparing the performance of seven macro tech stocks (white line, tickers in bottom left corner) to the rest of the S&P 500 (493 stocks, red line) and the S&P 500 excluding banks and those seven stocks, the outperformance of these seven mega-caps accelerated markedly after the SIVB debacle. Just two of them, Apple Inc. (AAPL.US) and Microsoft Corp. (MSFT.US), now constitute 13% of the S&P 500; the most that two stocks have dominated the index since 1978. Conversely, in sharp contrast to the 19.9% weight of bank stocks in the TSX, U.S. banks constitute a measly 3.1% of the S&P 500. The result has been an incredibly narrow market driving year-to-date gains.



Source: Fidelity Investments

Looked at from another angle, Fidelity Investments posted the above supportive graph on Twitter, confirming how narrow Q1 performance was for the S&P 500. Finally, while already outperforming, the graph below highlights that after the SIVB mess, those same seven stocks move markedly higher alongside the significant decline in yields on U.S. two-year government bonds. The impact on indices of this move by index-heavy stocks, served to hurt each of our two funds, both of which had been markedly outperforming markets at the mid-point of March.



Source: Bloomberg

During the first half of March, the S&P 500 fell 4% to its intraday trading low, before rebounding +7.9% from that level to close at the highest point of the month. Yields on UST10s fell 45 basis points (“bps”), while yields on UST2s dropped a sizeable 79 bps during March. In fact, depending on the day, risk-free yields are back to discounting two to three cuts in the Fed Funds Rate by year-end 2023. Looking back, one reason this temporary boost in liquidity had such a pronounced effect on driving risk-free rates lower and asset prices higher, was that a large percentage of market participants were well-hedged and broadly underweight equities.

As discussed in [our last monthly commentary](#), each of our funds had exited February 2023 net short common equities. Our reasoning for such positioning has been simple. We’ve long expected the structural mismatch in labour markets to cause employment costs to remain higher for longer, in turn causing Core Service inflation to stay ‘sticky’, notwithstanding a slowing economy and negative earnings revisions. With stocks trading >18X forward EPS, we found the risk/reward for stocks to be unfavourable.

Consequently, for the month ending March 31st, the Class F Lead Series of our Long Short LP posted a positive net return by the skinniest of margins, up 0.02% net of fees. Year to date, this series is up 0.14% net of fees. Sectors generating the most gains were Financials, short banks, long non-bank financials, and Energy, driven by our net short exposure. Modest profits were also generated from our Materials and Consumer, Non-Cyclical exposures. Technology, Consumer, Cyclical, market hedges and Industrials mainly accounted for the losses within the portfolio for the month.

Since month-end, the announcement by Saudi Arabia to cut oil production has boosted the price of oil. This event has caused us to shift once again to be net long the Energy sector, although we'd characterize our stance as cautiously optimistic as opposed to bullish, considering the deterioration in the economic climate. We continue to favour Canadian companies over U.S. companies, oil over gas, and oil sands over conventional oil. The allocation of client capital in this fund to Technology stocks remains low given the deteriorating operating performance of many segments within the broader tech space. We continue to expect GAAP (growth at any price) stocks to move lower. At month-end, the delta-adjusted gross and net exposures of the fund were +116% and -2%, respectively.

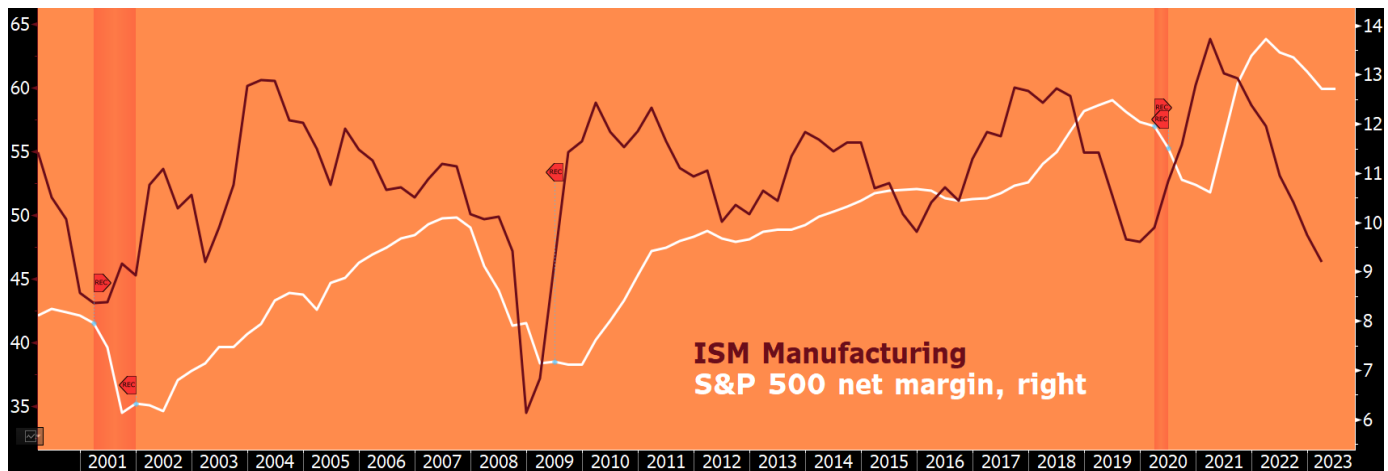
		----- Annualized -----							
	YTD	1-mo	3-mo	6-mo	1-year	3-year	5-year	10-year	Inception
Forge First Long Short LP (Class F Lead Series)	0.14%	0.02%	0.14%	-0.02%	-9.20%	13.21%	8.88%	12.20%	13.26%
Forge First Multi Strategy LP (Class F Lead Series)	0.48%	-0.26%	0.48%	1.36%	0.33%	13.47%	8.27%	9.54%	10.54%
S&P/TSX Composite Total Return Index	4.55%	-0.22%	4.55%	10.79%	-5.17%	18.02%	8.80%	7.86%	8.46%
S&P 500 Total Return Index (C\$)	7.44%	2.96%	7.44%	13.43%	-0.03%	16.73%	12.24%	15.49%	16.17%

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 low volatility, multi-asset Multi Strategy LP lost 0.26% net of fees for March, cutting its year-to-date net gain to 0.48%. Losses in the asset protection sleeve drove the modestly negative performance for March as, given the late month rally, the losses on these hedges were larger than the gains in the multi-asset and capital growth sleeves of the portfolio. The Financials and Industrials sectors led the positive performance, while net exposures in the Consumer, Cyclical, Utilities and Real Estate sectors hurt the fund. At month-end, the delta-adjusted net equity and equity option exposure rose modestly month-over-month to +3% from roughly -4% at the end of the previous month. Net exposure for the multi-asset sleeve was +19% net long at month-end. Overall, delta-adjusted gross and net exposure exited March at +109% and +22%, respectively.

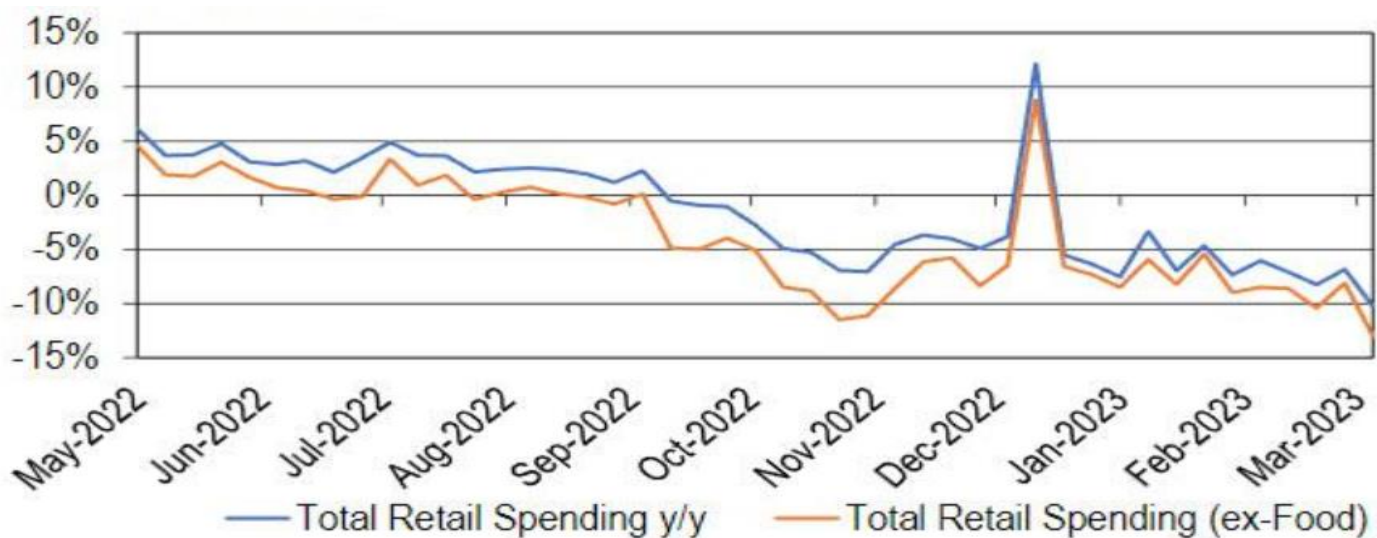
Looking ahead, equity bulls foresee rate cuts driving stocks higher, regardless of the earnings impact of a weaker economy. It's possible this constructive view is boosted by the belief that continued buying of the (perceived to be safe) heavily weighted macro cap tech stocks will prevent equity indices from falling, despite an arguably full valuation for markets. In contrast, for now, the Fed has made it clear that visible signs of supercore inflation receding towards its 2% target remain a prerequisite before the Central Bank will contemplate a cut in rates. We acknowledge history is not on the side of the Fed, however, at 18.5X 'yet to be lowered' forward EPS, our investment team has a tough time wanting to increase our net exposure to stocks.

On that point, for the first quarter of 2023, in contrast to earlier estimates of a +1.4% gain in Q1 EPS, Refinitiv now forecasts a 5% drop in EPS subsequent to the 3.2% drop witnessed during Q4. For several reasons, we foresee additional downside to profit forecasts. The graph below compares ISM Manufacturing (red line, left axis) against the net profit margin for the S&P 500 (white line, right axis). The falling red line suggests the white line has further to fall.



Source: Bloomberg

One reason further weakness appears probable relates to consumer spending. The graph below, courtesy of Citigroup, indicates run rate spending for U.S. retail spending (blue line), let alone spending on non-food items (orange line) is declining at a rapid pace. Shrinking COVID-surplus cash savings, a weakening jobs market, ballooning credit card debt and more recently, an expected tightening of bank credit, all suggest the pace of consumer spending is poised to slow even further. Note the recent miss in U.S. auto sales, at only 14.9M units on an annualized basis. Current short positions in the funds include Tesla Inc. (TSLA.US), Burlington Stores Inc. (BURL.US), Carnival Corp. (CCL.US), iShares U.S. Home Construction ETF (ITB.US) and Polaris Inc. (PII.US).



Source: Citigroup

Shifting to manufacturing, the 20+ year indexed graph below supports the weakening trend seen in last week's ISM data. Real Chinese exports, in 2010 prices (blue line, left axis) correlate well with the pricing of industrial metals. The downward trend is highly suggestive of additional earnings challenges in the broader Industrial sector. Related short positions in the funds include Hudbay Minerals Inc. (HBM.CA), Bombardier Inc. (BBD.CA), Magna International Inc. (MG.CA), Caterpillar Inc. (CAT.US), Albemarle Corp. (ALB.US), CF Industries Holdings Inc. (CF.US), JB Hunt Transport Services Inc., (JBHT.US) and Lundin Mining Corp. (LUN.CA).



Source: Capital Economics

Lastly, there's the potentially negative impact of recent bank failures catalyzing even tighter lending conditions; however, as much has been written on this topic, we'll merely acknowledge the lack of upside to forward growth estimates from the situation. Yet, while there is little doubt U.S. growth seems to be inflecting to the downside, several data points cause us to believe that near-term inflation prints will remain too hot for the Fed's comfort. Hence, for now, we stick with our view of no rate cuts during the 2nd half of 2023. Despite that stance, if there's a marked pick-up in unemployment or a severe tightening in financial conditions, then all bets are off as Powell could pivot once again. Depending upon the trend in core PCE non-shelter services at that juncture, post a 'sugar high' rally, considering the market action last week, such a shift may turn out to be a bad omen for stocks.

ISM Manufacturing has been painting an ugly picture of the U.S. economy for seven months. However, until last weeks' ISM Services release, investors had taken solace in the strength of consumption and the services side of the U.S. economy. Now, investors appear to be transitioning their focus from the excitement of potential rate cuts (catalyst for the outperformance by tech) and injections of liquidity (Fed's post SIVB response drove late March melt-up) to fears over how severe the U.S. economy will drawdown.

This is the set-up our team has been waiting for to increase net exposure to both stocks and investment grade credit. Sure, it would have been great to have captured a portion of the recent rally in stocks, but investors know our investing style is aligned with fundamental 'buy and hold' investing as opposed to risky, tactical short-term trading. In addition, we strive to manage volatility, offer tax efficient funds, and are big believers in the motto that 'slow and steady' wins the race.

We expect that negative earnings revisions will accompany the release of Q1 results, but more markedly so, when 2nd quarter earnings are reported. These negative revisions would be expected to reduce 2023 EPS estimates for the S&P 500 towards \$200, implying a current forward multiple of 20.5X for the SPX. Under the scenario where inflation remains sticky, valuation multiples are also likely to face downward pressure. In fact, unless inflation nose-dives or forward monetary policy actions and liquidity materially improve, it's tough to see stocks continuing to outperform earnings. The bull case is inflation falls faster than growth, but we don't see that happening.

Our team discusses the pros and cons of markets relative to our continuing defensive positioning on what seems to be a constant basis as we strive to be pragmatic, not dogmatic, about the positioning of our funds. We're open to repositioning the funds if it appears that inflation will recede faster than we forecast, and growth won't fall as much as we believe is likely to be the case. However, that's not our base case scenario. For now, we'll remain defensively positioned with a short bias to cyclical businesses, including Materials, Banks, Industrials, and discretionary Consumer stocks. On the long side, we continue to see good value in companies that have pricing power, oil stocks versus gas stocks, non-bank financials and selected securities in the Consumer, Technology, and Industrial sectors.

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.

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