FORGEFIRST
ASSET MANAGEMENT INC

APRIL 2014

MONTHLY COMMENTARY

Despite April's continuing trend of mostly weaker U.S. economic data - which may or may not still be attributed to the weather - positive fund flows have kept most global equity indices in the green, not due to investor conviction but as a result of seeing few alternatives to stocks. Investor sentiment readings have become more neutral as investors ponder what pace of economic growth will be required to justify current stock valuations. Clearly the jury is still out.

Total Return in local currency	April 2014	2014 – Year To Date	Since Inception (Aug 2012)
S&P 500	0.74%	2.56%	41.85%
TSX Total Return	2.42%	8.63%	32.55%
FF LONG SHORT LP CL F LEAD SERIES	1.93%	7.72%	80.31%
FF MULTI STRATEGY LP CL F LEAD SERIES	1.40%	4.47%	58.49%

Note: ***Returns for the Forge First funds are based on the Aug 2012 CLASS F Lead Series and net of all fees.***
In a year, up to 12 series can be created within a Class of units. Accordingly, no two series will have the same net return. Unitholders are advised to refer to their monthly statement for the net return of their respective Class and Series.

The TSX shone during April 2014, generating a total return of 2.42%, with 44% of this capture coming from the roughly 25% index weighting in Energy stocks. Returns south of our border were more tepid given continued bleeding in momentum stocks and the lower allocation to Energy names. **I'm pleased to report both Forge First funds made money for the 18th consecutive month**.

The Forge First Long Short LP ("FFLSLP") generated a net return of 1.93% for the Class F Lead Series during the month of April, lifting its year to date net return to 7.72%. Eight of 12 sectors chipped in profits during the month, led by Consumer Non-Cyclical (+104 bps), Utilities (+70 bps) and Energy (+61 bps) names. Technology (-61 bps), Materials (-34 bps) and ETFs (-10 bps) were the losing sectors. The FFLSLP ended April 2014 with gross and net exposure of 168% and 66% respectively.

As for risk metrics, the Sharpe Ratio of the FFLSLP sits at 4.74 driven by robust returns and a below market standard deviation of 8.46%. Correlation with the TSX is 32% while the adjusted beta is 0.35.

Our more conservative fund, the Forge First Multi Strategy LP ("FFMSLP") provided investors a total net return during April of 1.40% for the Class F Lead Series. Gains were captured in the majority of sectors, including Consumer Non-Cyclical (+65 bps), Energy (+57 bps) and Utilities (+50 bps). Losing sectors included Technology (-47 bps), Materials (-22 bps) and ETFs (-10 bps).

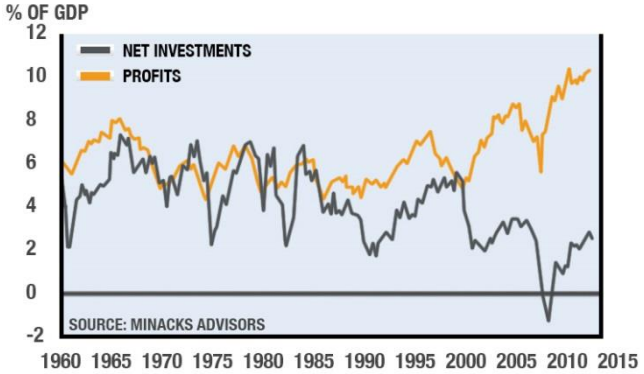
The adjusted beta of the FFMSLP is a measly 0.10 while correlation to the TSX sits at 10%. In light of the returns of this fund, and with a standard deviation of 7.0%, it's not surprising the Sharpe Ratio is a robust 4.30. The FFMSLP exited April 2014 with gross and net exposures of 146% and 35% respectively.

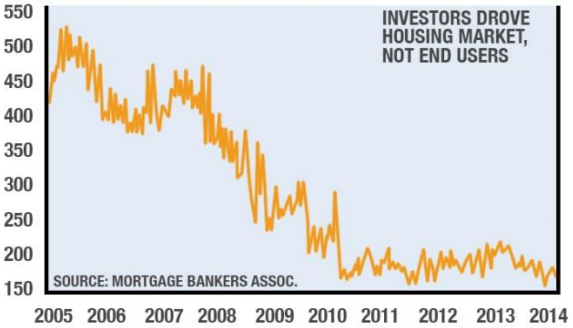
One of the many great attributes of a properly managed hedge fund is that the manager is relatively indifferent to the market environment, a relevant aspect today given the mixed picture facing markets.

It's obvious the world remains mired in a low growth recovery with continued risks to the downside due to demographics, debt and political gridlock. All emerging markets are experiencing slowing growth amidst rising, but manageable, debt levels. The European economy has stabilized at anemic rates of growth that will contribute little to the global economy, and remains vulnerable to shocks.

The U.S. economic picture exhibits many cross currents but overall continues to improve in line with my expectations. On a positive note, the 6 largest U.S. banks saw 9% year-over-year growth in business loans during Q1. More broadly, the Federal Reserve's Senior Loans Officer survey for Q1 indicated C&I loans improved across all the major lending categories: financing inventory build and/or accounts receivable, investment in plant and equipment, and M&A financing. The survey also indicated that lending standards are easing, primarily in the form of tighter pricing and some easing of covenants, largely as a result of competitive pressures, including from non-bank lenders.

Yet there's little question U.S. Q1 GDP was lousy, given that without the lift from Obamacare (1% of PCE's total 3% rate of growth) and weather-induced spending on utility bills the economy would have contracted markedly year-over-year. In addition, the housing sector is clearly struggling. For example, the graph on the top right hand side of the next page shows that the new purchase mortgage application index continues to approximate levels of four years ago. This lack of recovery supports the view that prices not volumes and investors not end users have driven the housing recovery to date.





With such a mixed and tepid outlook for growth, the rate of expansion for EPS for the S&P 500 will remain mid-single digits, and less if you exclude the benefit of share buybacks. Meanwhile, longer term interest rates will continue to defy the bond bears for reasons beyond fears about growth and inflation. Outrageously expensive European sovereign yields (10Y French & Italian yields of 1.92% & 2.94% respectively) will serve to push North American rates lower. In addition, Bloomberg recently reported http://buswk.co/1iYTNKl a growing shortage of long term bonds, partially due to the portfolio rebalancing efforts of pension funds.

With little impetus to significantly expand capital spending programs and the cost of capital so low, it's likely that the decoupling of profits and net investment spending, shown in the graph on the above left, will remain wide over the medium term. Instead, profits will continue to fund buybacks and dividend hikes. With equity valuations at the higher end of the non-tech bubble period range of the last 50 years, this capital return story remains a key pillar of support for stocks. And then of course there's M&A. With the value of year to date bidding activity up 61% year over year, it's important to remember that history shows M&A to be the last signpost that a bull market is getting tired.

As discussed in my 2014 Outlook commentary http://bit.ly/1kHNQ67 I remain of the view that the most likely 2014 scenario for U.S. equities is that they're down to up 5%. So, enjoy this 6th year of the bull market run while it lasts, and in the meantime watch U.S. wage and bank loan growth. These two variables will dictate the timing of the Fed's exit not the Fed itself; and when the Fed does hike rates, history has proven the hikes will come faster than you think, rise further than you think, and the jury will have made its decision.

The team at Forge First appreciates your support and interest. And our team is growing! Emma Querengesser has joined Forge First as Director of Business Development.

Also available through approved Investment Advisors are our two new funds, Forge First Long Short Trust and Forge First Multi Strategy Trust. Both of these funds are eligible for purchase in registered and non-registered accounts.

Lastly, I'm pleased to report that we've launched our website www.forgefirst.com.

As always, should you have any questions or comments, please contact me at 416-687-6771 or amccreath@forgefirst.com.

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Thanks very much,