FORGEFIRST
ASSET MANAGEMENT INC

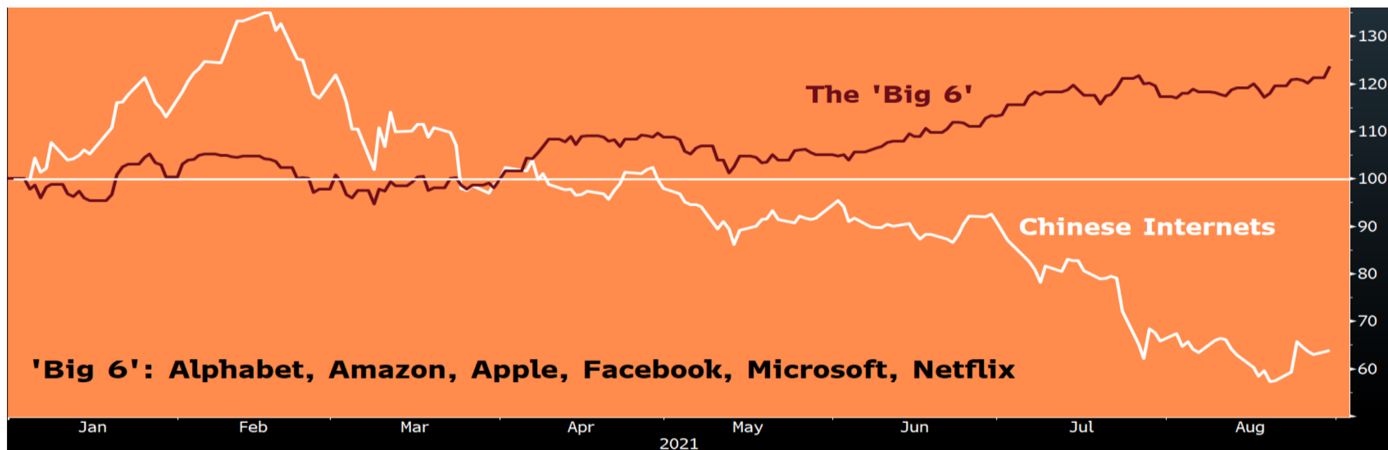
September 8, 2021

August 2021 Commentary

While the deck of cards that market participants base their investment decisions upon has remained constant since COVID-19 changed the global dynamic 18 months ago, continued reshuffling of that deck has catalyzed significant month-to-month volatility across asset classes, equity sectors and factors. Unprecedented levels of liquidity remains the dominant variable pushing equity indices higher, yet larger-than-expected rates of deceleration in the American and Chinese economies (please see graph below), combined with fears surrounding the Delta variant, caused the growth style of investing to continue to outperform value during August.

Source: Bloomberg

However, given the dominance of U.S. 'macro cap' tech stocks within the 'growth' factor of investing, a second, unquantifiable driver boosting the relative outperformance of growth during the past couple of months has been the torrent of money fleeing Chinese tech stocks for U.S. tech darlings. This shift is apparent in the indexed year-to-date graph below of Chinese internet stocks and what we call the 'Big 6'.



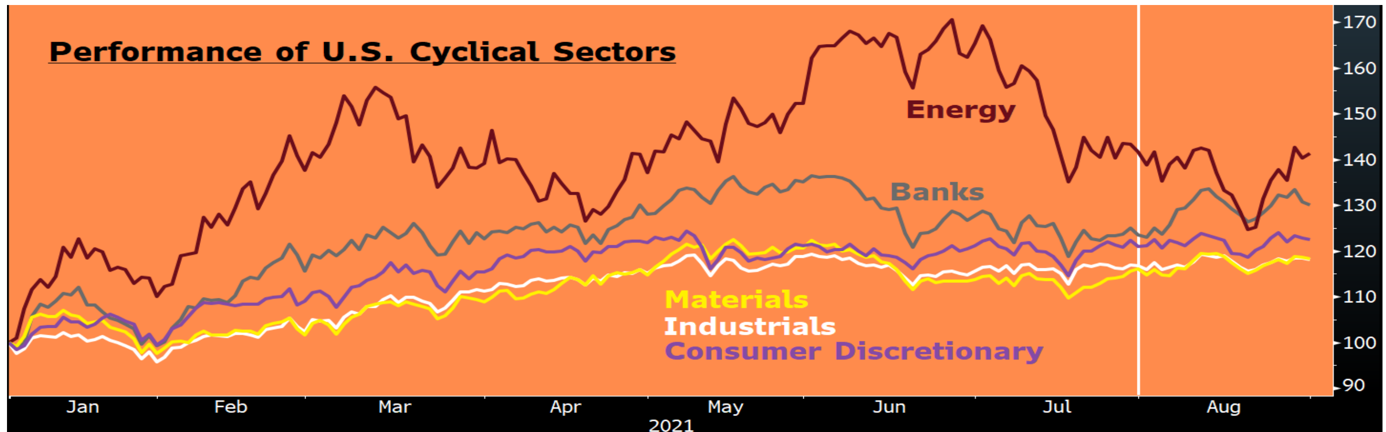
Source: Bloomberg

Within the value/cyclical sectors, the indexed, year-to-date graph towards the top of the next page illustrates that the Materials, Industrials, and Consumer Discretionary sectors were flat during August (to the right of the white vertical line). Banks inched higher, while Energy endured a volatile, round trip to end flat. Economic fears or actual data points held each of these groups back amidst an otherwise rising tape.

1 DISCLAIMER: This material has been published by Forge First Asset Management Inc. It is provided as a general source of information; it is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The 2021 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. Index statistics use total return indices. The statements contained herein that are not historical facts are forward-looking statements, which are based on current expectations and estimates about particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed in such forward-looking statements. The information contained herein is subject to updating and further verification and may be amended at any time without notice and we are under no obligation to update this information at any particular time. The composition of the Funds' portfolio could differ significantly from an index due to the investment strategy employed, and includes differences such as use of equal weight positions, use of short positions and varying fund net exposure. Source for all index data: Bloomberg.

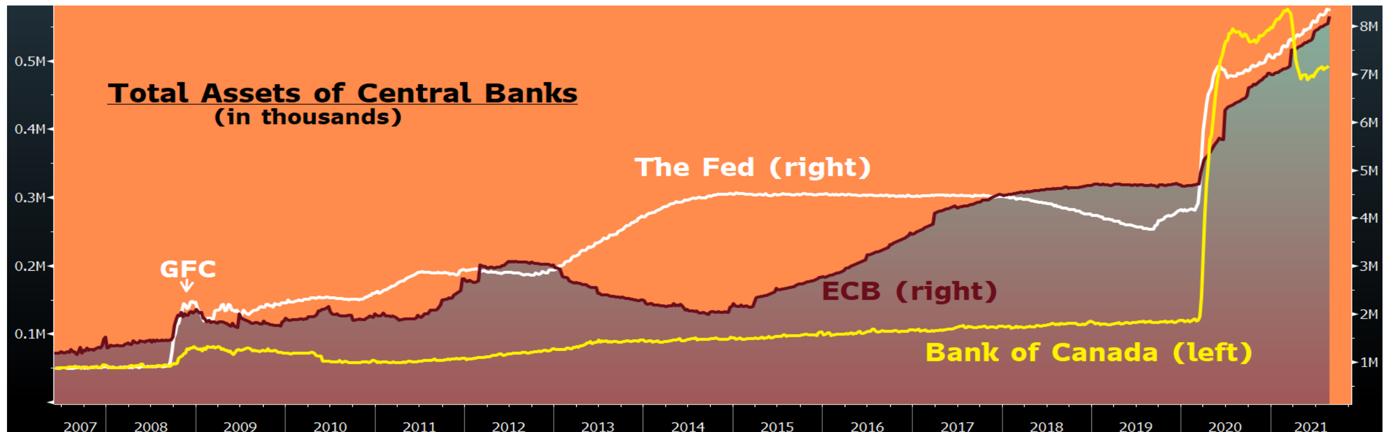
FORGEFIRST
ASSET MANAGEMENT INC

Overall, inflation and the ability of companies to pass through hikes in input costs remained a concern and the Fed acknowledged that inflation was higher than expected, but maintained that it was still "transitory". Yet, with the exception of last September and October, equities (especially the S&P 500) have been in one of the steadiest uptrends ever. Tests of the 50-day moving average have been few and their duration incredibly short. In fact, year to date, the S&P 500 has posted 53 new closing highs (12 during August).



Source: Bloomberg

Oh, the wonder of liquidity! The S&P 500 now trades at a P/E ratio of 27.1X trailing earnings and 22X 2022 EPS estimates of US$220. As you can see from the white and red lines in the graph below, each of the Fed and ECB continues to grow their balance sheets; more than US$100B a month in the case of the Fed. As a result, it has been a particularly challenging few months to manage an alternative investment fund, especially funds that feature the constant twin disciplines of maintaining a diversified short book and a portfolio of listed options targeted towards protection. Bullish during H1 of 2021, we now view markets as being expensive, with an increasingly asymmetrical risk/reward outlook when peering out over the next 12 months. However, our investment team also realizes that until the Fed actually turns the monetary taps off, equities could keep grinding higher; TINA, as "they" say!



Source: Bloomberg

During the month of August, Series F of the Forge First Long Short Alternative Fund declined -0.50% net of fees such that its year-to-date net return is +11.22%. Positive contributions from Financials, Industrials, Real Estate and Technology were overwhelmed by losses from the Consumer, Energy and Materials sectors. The top-performing stock for the month was Chart Industries, Inc. (GTLS.US), an energy transition story with a multi-decade runway of growth.

Chart has successfully built upon its solid foundation of designing and manufacturing highly engineered components used in the LNG industry. Beginning in 2018, Chart embarked on a campaign to diversify its end-markets with near immediate

1 DISCLAIMER: This material has been published by Forge First Asset Management Inc. It is provided as a general source of information; it is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The 2021 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. Index statistics use total return indices. The statements contained herein that are not historical facts are forward-looking statements, which are based on current expectations and estimates about particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed in such forward-looking statements. The information contained herein is subject to updating and further verification and may be amended at any time without notice and we are under no obligation to update this information at any particular time. The composition of the Funds' portfolio could differ significantly from an index due to the investment strategy employed, and includes differences such as use of equal weight positions, use of short positions and varying fund net exposure. Source for all index data: Bloomberg.

success. To this point, the company's "Specialty Products" division, which includes products sold into the hydrogen, carbon capture, helium and water treatment industries, now represents one-third of total revenue. This division drove the bulk of Chart's 25% year-over-year revenue growth in its most recent quarter. Our analysis suggests Chart can grow its annual revenues in the mid-teens for years to come.

Trading at 23X 12-month forward EBITDA, granted the shares of Chart aren't cheap; however, we believe the rare combination of a long runway of visible growth, strong ESG bona-fides, disciplined capital allocation and rising free cash flow, enable the shares to be a core holding of the fund.

Other top holdings in the fund remain focused on Technology (Alphabet, Facebook, Microsoft and Amazon.com) and Energy (Tourmaline Oil, Canadian Natural Resources and Meg Energy), complemented with the recent inclusion of Royal Bank of Canada (RY.CA) and RH a.k.a. Restoration Hardware (RH.US). At month end, the gross and net exposure of the fund was 123% and 42% respectively.

Shifting to our lower volatility, multi-asset fund, the Series F of Conservative Alternative Fund suffered its first negative month of performance in the past 17 months, falling -0.44%, cutting its year-to-date net return to +9.10%. This performance was largely driven by losses in the asset protection sleeve, option protection on single names, and limited upside in the capital growth sleeve against a backdrop of positive equity index performance. The alternative strategy sleeve contributed positively to returns, led by rate-reset preferred shares.

In managing this less directional, more capital preservation-focused fund, current positioning discounts our leeriness towards the rising risks of weakening LEIs (leading economic indicators) and reduced monetary and fiscal accommodation during 2022. At the same time, as we recognize these concerns could be premature, the fund continues to include many offence-oriented characteristics. At month end, the gross and net exposure of the Conservative Alternative Fund were 109% and 34% respectively.

	YTD	1 mo	3 mo	6 mo	1 year	2 year*	Since Inception*
Forge First Long Short Alternative Fund Series A	10.59%	-0.58%	0.18%	5.04%	19.46%	15.14%	11.76%
Forge First Long Short Alternative Fund Series F	11.22%	-0.50%	0.40%	5.50%	20.50%	16.19%	12.75%
Forge First Conservative Alternative Fund Series A	8.43%	-0.52%	0.96%	3.57%	19.63%	13.09%	10.63%
Forge First Conservative Alternative Fund Series F	9.10%	-0.44%	1.19%	4.06%	20.75%	14.12%	11.61%
TSX Total Return	20.16%	1.63%	4.99%	15.50%	28.24%	15.37%	12.45%
S&P 500 Total Return (US$)	21.58%	3.04%	7.95%	19.52%	31.17%	26.47%	21.70%

*****Annualized | Inception date: April 24, 2019

While liquidity has been the principal driving force behind equity strength since the market bottomed during March 2020, the stronger-than-expected recovery in earnings has played an instrumental supporting role. And that's a good thing because, as mentioned above, over the next few months, we believe the trend of ever-increasing liquidity will (slowly) begin to reverse such that earnings growth will feature more prominently in driving the performance of stocks.

First, as expected, the pace of North American economic growth has now decelerated markedly. Unexpectedly, the vengeance of the Delta variant and the seemingly endless duration of supply chain issues have begun to bifurcate stocks between companies poised to meet or beat expectations and others which are vulnerable to further disappointments. This divergence, which has recently raised its head within the consumer space (think Toyota Motors, Dollar Tree and Dollar General), should finally catalyze rising dispersion between securities.

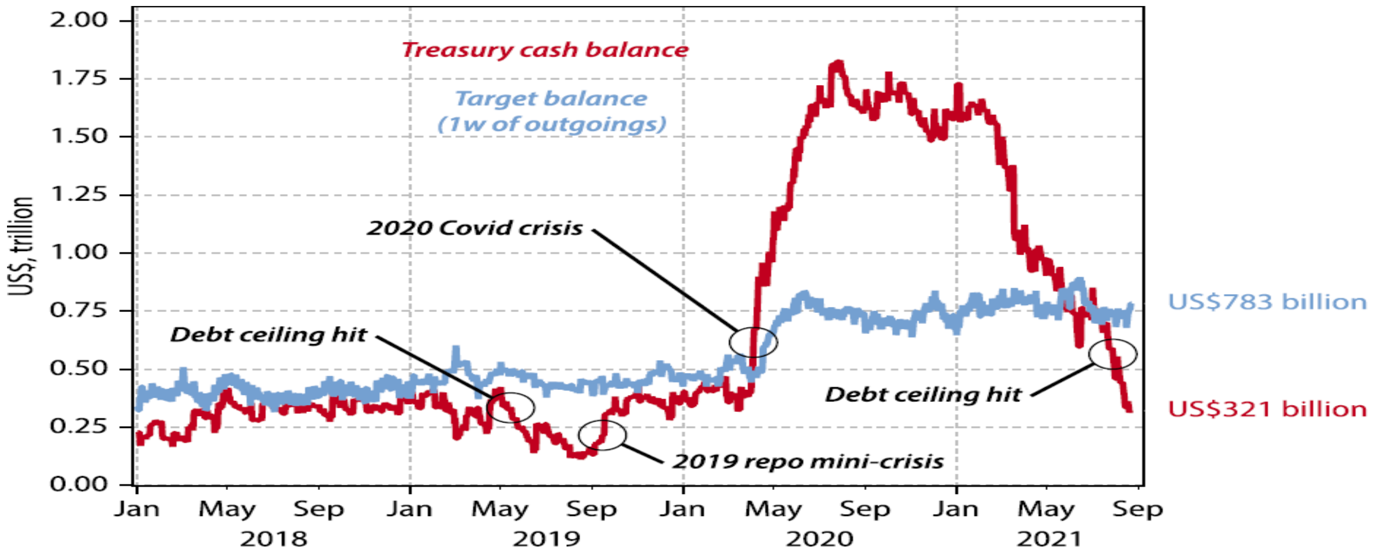
In addition, while liquidity is expected to remain plentiful, the forthcoming change in trend should be expected to increase market volatility. The Fed's inevitable (and belated, in our opinion) transition to cease their monthly bond buying program should have the effect of cutting demand for all asset classes, given the fact that more bonds will have to be purchased by investors.

1 DISCLAIMER: This material has been published by Forge First Asset Management Inc. It is provided as a general source of information; it is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The 2021 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. Index statistics use total return indices. The statements contained herein that are not historical facts are forward-looking statements, which are based on current expectations and estimates about particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed in such forward-looking statements. The information contained herein is subject to updating and further verification and may be amended at any time without notice and we are under no obligation to update this information at any particular time. The composition of the Funds' portfolio could differ significantly from an index due to the investment strategy employed, and includes differences such as use of equal weight positions, use of short positions and varying fund net exposure. Source for all index data: Bloomberg.

FORGE FIRST
ASSET MANAGEMENT INC

Pundits guessing on when the Fed will finally shift from QE to QT remain focused on the state of the jobs market and, to a lesser degree, the level of inflation. While sound thoughts, we suggest another factor, one that should have a direct impact on market liquidity, is also on the minds of the voting members of the Fed.

During the four months after COVID-19 hammered markets last year, the U.S. Treasury Department issued bonds to boost its cash holdings (Treasury General Account or TGA) from US$400B to US$1.8T; well more than double typical levels. With the Fed fully supportive, this task was easily accomplished. In fact, during 2020, the Fed's QE program created US$3T of new money, meaning the Fed financed the entire increase in the TGA, leaving the remainder available to boost asset prices.



Source: Gavekal Research

However, since February 2021, the above graph, courtesy of Gavekal Research, indicates that this 'chequing account' of the U.S. Treasury has been reduced to just US$321B (US$296B as of Sept. 1st) as shown by the red line. Of course, much of the roughly US$1.5T reduction in the GTA during the past year has found its way into the commercial banking system, partially explaining the source of the excess deposit balances frustrating bank executives. The preference of the Treasury is to maintain a minimum cash balance equal to one week of expenditures, that's the blue line. So why doesn't the Treasury simply sell more bonds?

Enter the latest installment of the seemingly annual debt ceiling problems of the U.S. With President Biden seeking another US$3.5T fiscal expansion program, and arguably weakened politically by the challenged withdrawal from Afghanistan, the Republicans have decided to 'just say no' (let alone Senator Manchin's desired 'strategic pause')! Negotiations will continue, but for all these years we've read about potential problems surrounding an extension of the amount of debt the U.S. government can issue, it strikes us that this could be the year when the negotiations become problematic. The House is back in session on Sept. 20th and while Sept. 30th is the normal deadline, it's thought that extraordinary measures could push the agenda until the beginning of November.

Prior to the resolution of the debt ceiling, will the Fed really want to announce its intent to begin shrinking its balance sheet? Then of course, when Congress ultimately resolves this issue and the Treasury begins issuing bonds again, it will be doing so with the biggest buyer increasingly not in the room! Hence this situation could catalyze some near-term choppiness for stocks.

However, despite elevated valuations, ongoing ample liquidity and materially negative real rates imply it's still too early to raise the white flag on equities; yet the risks are rising. Also, until there's clarity as to whether the Delta variant (and any others) will further damage the linearity of the U.S. economy or the market foresees a re-acceleration of growth in Q4 2021, investors should expect continued flip-flopping between growth and value. Within this environment, each of our two funds

1 DISCLAIMER: This material has been published by Forge First Asset Management Inc. It is provided as a general source of information; it is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The 2021 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. Index statistics use total return indices. The statements contained herein that are not historical facts are forward-looking statements, which are based on current expectations and estimates about particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed in such forward-looking statements. The information contained herein is subject to updating and further verification and may be amended at any time without notice and we are under no obligation to update this information at any particular time. The composition of the Funds' portfolio could differ significantly from an index due to the investment strategy employed, and includes differences such as use of equal weight positions, use of short positions and varying fund net exposure. Source for all index data: Bloomberg.

intends to maintain a balance of growth and value-oriented common equities with exposure levels expected to sit in the bottom half of their typical range.

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.

Thank you,

Andrew McCreath	Daniel Lloyd	Keenan Murray
President and CEO	Portfolio Manager	Portfolio Manager

1 DISCLAIMER: This material has been published by Forge First Asset Management Inc. It is provided as a general source of information; it is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The 2021 results are unaudited, net of all fees and expenses, and are based on our best estimates at the time of this report. Index statistics use total return indices. The statements contained herein that are not historical facts are forward-looking statements, which are based on current expectations and estimates about particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed in such forward-looking statements. The information contained herein is subject to updating and further verification and may be amended at any time without notice and we are under no obligation to update this information at any particular time. The composition of the Funds' portfolio could differ significantly from an index due to the investment strategy employed, and includes differences such as use of equal weight positions, use of short positions and varying fund net exposure. Source for all index data: Bloomberg.