MONTHLY COMMENTARY

US equity indices surpassed their 2007 highs during February 2013 while the 50% weighting in resource stocks kept the TSX well below its previous peak. Equities gained on light volumes as many investors remain underinvested relative to their benchmarks. Concerns regarding the stagnant outlook for the majority of western world consumers have caused investors to stick with bonds notwithstanding the much hyped expectation of a sell-off in bond prices.

February 2013 Performance Summary

Gold	Oil	TSX	S&P500	Dow Jones	10 Year Yields
-$80	-$5	+1.1%	+1.1%	+1.4%	-10bps

Our January 2013 Market Commentary explained that given our concern regarding the political gridlock in Washington, economic paralysis in Europe, and our view the US economy won't attain an 'exit velocity'[1] this year, we had trimmed the net exposure levels of our funds at the end of the month. Fortunately this shift has not hurt our performance as we've continued to exhibit excellent security selection.

For the month of February 2013, the Forge First Market Neutral LP ("FFMNLP") gained 1.96% net of fees, thanks to gains of 173 bps and 117 bps (gross) in each of our long and short books. Looking at the same data from a different angle, Canadian securities in the fund generated 232 bps (gross) of profits while the US portion of our book chipped in 59 bps of gains. Sector-wise, our biggest winners were consumer-related securities with 168 bps of gains, utilities at 88 bps and materials at 66 bps. For the latter two sectors, the vast majority of our gains came from the short side. No securities in our book, long or short, contributed more than 50 bps of gains or losses during the month. FFMNLP made money on 14 of the 19 trading days during February compared to 10 winning days for the TSX. FFMNLP ended the month with gross and net exposures of 207% and 34% respectively.

In addition to delivering a solid net return of 15.12% since the August 2012 launch of FFMNLP, this fund has exhibited superior risk metrics. The correlation to the TSX is 12%, the standard deviation of the fund has been 5.9%, and the adjusted beta is 0.23%. The Sharpe ratio of this fund is 4.8.

The Forge First Long Short LP ("FFLSLP") was up 2.49% net during February 2013. This gain improved the since (August 2012) inception net return to 17.31%. The long and short portions of this book contributed gross gains of 225 bps and 128 bps respectively. Sector-wise, our biggest winners were consumer-related securities with 178 bps of gains, utilities at 96 bps and materials at 58 bps. As with the case for FFMNLP, most of the gains in these latter two sectors came from the short side of the portfolio. No securities, long or short, contributed more than 50 bps of gains or losses during the month. FFLSLP made money on 12 of the 19 trading days during February and ended the month with gross and net exposures of 215% and 46% respectively.

The Sharpe ratio for FFLSLP sits at 4.3. Implicit to this statistic is the low standard deviation of 7.2%. The higher net exposure of FFLSLP relative to FFMNLP explains the higher correlation to the TSX of 41.6%. The adjusted beta of FFLSLP is 0.30%.

Looking ahead, given the rhetoric coming from Washington, we're wondering whether we're moving towards another 'go away in May scenario'. It appears President Obama believes his best chance to buck the historical trend of the incumbent losing mid-term elections will be maximized by sticking to his mantra of raising revenue versus unpopular spending cuts. Meanwhile, given that only 5% of the US Federal Government cuts to date have been from the 57% of total Federal spending that comes from entitlements, it's no surprise that Congressional leader John Boehner isn't showing signs of meeting the President anywhere, let alone half way. If Obama can beat the odds and take control of both sides of Congress in 2014, then he'll be in the position to complete his final term as President in similar fashion to the 'benevolent dictator' that steers our Federal Government in Ottawa, specifically restructure the landscape of the US economy in line with his vision.

[1] Exit velocity is the rate of growth required to enable the economy to gain enough momentum such that it can propel itself, without additional stimulus, to a level of growth that becomes self-sustaining

In the meantime, unless we see signs that one side will give in to the other party, the bias of our portfolio construction will likely get more defensive. Over the next few weeks, it's likely that we'll get ANOTHER extension for the debt ceiling of the US, probably for six months. While the 'bulls' will suggest this development will placate the public and facilitate additional new highs for equities, we don't buy that view.

Real income growth in the US remains lousy, the YTD rise in the US dollar will begin to hurt corporate profits in Q3, and months of more headlines about political wrangling sure won't help consumer sentiment.

As for Europe, the media appears fixated on the Italian election; but it's merely a sideshow. While its debt levels as a percent of GDP are amongst the highest of the big 6 in Europe, Italy is the most self-funding country in the EU, with locals buying roughly 75% of their public debt. In addition, Italy is running (for now at least, Mr. Berlusconi) a primary surplus[2]. What matters in Europe is the economy.

As expected, ECB head Mario Draghi cut his 2013 outlook for the European economy. While 'hawks' including Germany continues to demand additional austerity measures, the signs are growing that the public is getting fed up. Beyond all the known examples of Spain, Greece, Portugal, and Italy, the protestations in The Netherlands have recently been exhibiting a new level of fervour. Until this clash reaches a head, the continuing rise in unemployment and demoralization of the European consumer will combine to cause EU growth statistics to disappoint, and maintain a bid for the US dollar and its cousin', the 10 year US Treasury bonds.

So while acceptable growth in China and a continuation of ZIRP[3] should enable the maintenance of a decent bid for equities, it's tough to construct a scenario that generates double digit returns for equities during the remainder of 2013.

All questions or comments are greatly appreciated. Please reach us at 416-687-6771. Alternatively, please email Andrew McCreath at amccreath@forgefirst.com. Follow me on **TWITTER @CEDARBUSH**

Thank you,

Andrew McCreath

[2] Primary surplus implies that the revenues minus expenses of a government, excluding interest payments on debt, is in a surplus position

[3] ZIRP stands for zero interest rate policy