FORGE FIRST
ASSET MANAGEMENT INC

March 8, 2024

February 2024 Commentary

Markets continued to rock and roll during the month of February. This was driven by liquidity, the belief that decent economic growth will continue and a confidence that the market knows better than the Fed about the future path for interest rates. In this note, we will review the performance of the funds and explain why we remain cautiously net long the markets.

						-----------------Annualized-----------------			
As of February 29, 2024	**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)	2.33%	0.83%	5.18%	7.62%	10.53%	4.54%	9.16%	9.02%	13.12%
Forge First Multi Strategy LP (Class F Lead Series)	2.95%	1.72%	6.42%	7.60%	9.29%	5.10%	8.87%	7.42%	10.54%
S&P/TSX Composite Total Return Index	2.38%	1.82%	6.39%	6.99%	9.19%	9.01%	9.29%	7.37%	8.61%
S&P 500 Total Return Index (C$)	10.12%	6.79%	11.92%	14.20%	30.08%	14.40%	15.48%	15.04%	17.14%

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.

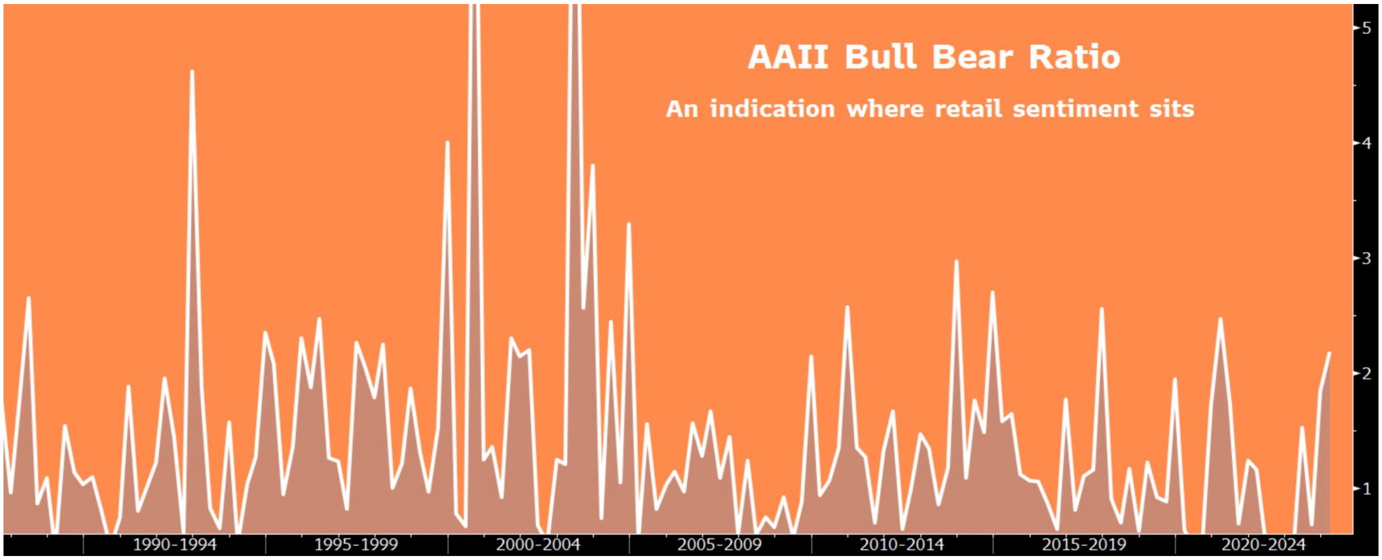
The Class F Lead Series of our low volatility, capital preservation-focused Multi Strategy LP posted a solid February, gaining +1.72% net of fees and boosting its year-to-date net return to +2.95%.

Holdings in the Technology and Financials sectors led the way, combined with solid contributions from the Consumer Non-Cyclical and Cyclical securities. Hedges were the principal detractor from performance, although not a large one in light of the performance of the market. Lumine Group Inc. (LMN.CA) was the biggest winner during the month. First purchased at the time this owner and operator of vertical market software businesses focused on the communications and media sectors was spun out from Constellation Software Inc. (CSU.CA), the fund significantly added to this position when the company announced its highly accretive acquisition from Nokia Oyj (NOK.US) during December. While the fund has recently reduced its exposure to these shares, Lumine remains a core holding in Multi Strategy LP. Other solid gainers during the month included Skyline Champion Corp. (SKY.US), a factory-built housing company, Boyd Group Services Inc. (BYD.CA) and Advanced Micro Devices Inc. (AMD.US).

On down market days during the month, the fund added exposure to high-conviction long ideas, while utilizing low-implied volatility options to expand hedges. Consequently, while the delta-adjusted gross exposure of the fund increased by 18% month-over-month to 151% at month-end, the common equity net exposure of the fund was little changed, exiting February at +16% net long compared to +14% at the end of January. Adding in the fund's 21% net long exposure to publicly-traded credit, total net long exposure sat at +37%. Looking ahead in the near term, the fund prefers additional credit exposure to equity exposure, hence expects to boost credit longs.

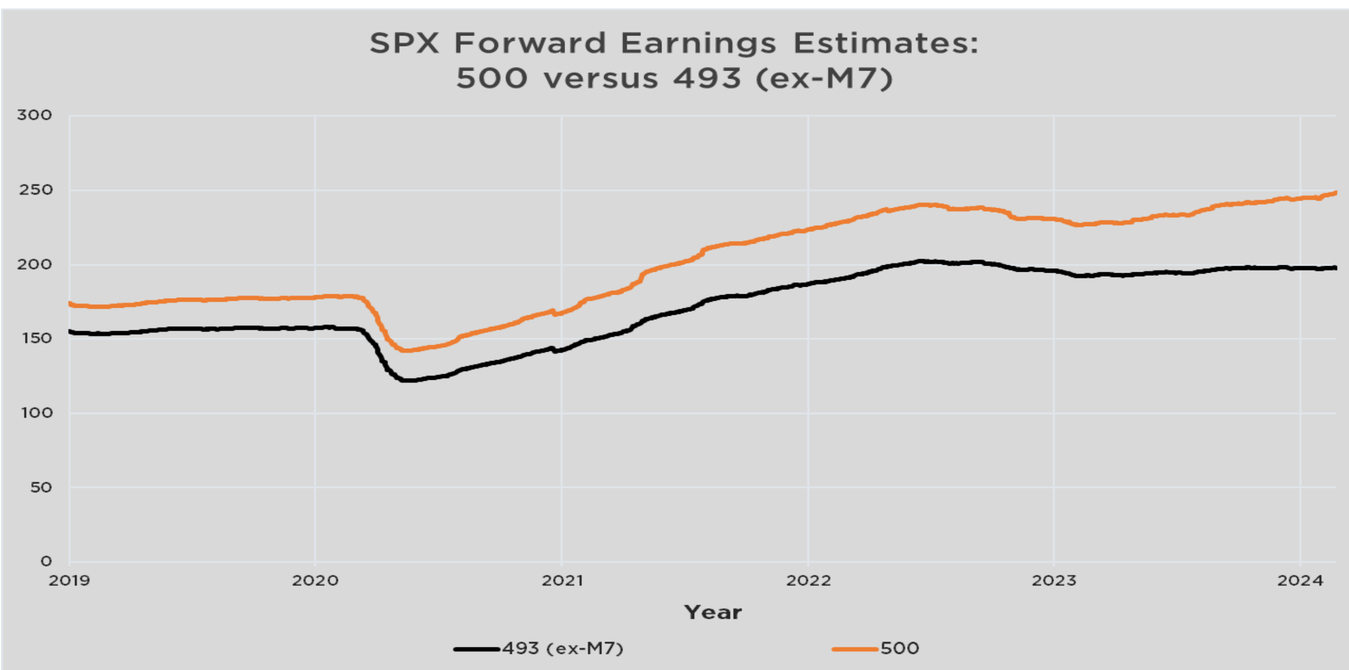
The Class F Lead Series of our Long Short LP gained +0.83% net during February, enabling its year-to-date net performance to exit the month at +2.33%. Gains were well balanced across multiple sectors including Financials, Consumer Non-Cyclical, Industrials, Real Estate, Technology and Materials. Hedge positions were a losing proposition during the month, as was our exposures in the Utilities, Energy and Consumer Cyclical sectors. In reviewing a few of the winners and losers for the month, the fund's short positions in the Office REIT space worked well, while our short U.S. oil, long Canadian oil sands pair hurt due to both direct and second derivative impacts of the Diamondback Energy Inc. (FANG.US) purchase of Endeavor Energy Resources, L.P. (private company). Collectively, positions in both the Technology and Financials sectors were decent contributors despite no noteworthy single positions in either sleeve. The fund exited February with delta-adjusted gross exposure of 163% and net exposure of +28%.

Looking ahead, to help assess where equities go from here, this note will briefly review investor sentiment, the breadth of market performance and earnings, and update our thoughts on inflation. There's little question that the Fed meeting later this month, including what they say about quantitative tightening ("QT"), and this month's inflation data will be critical drivers of near-term performance given the jet-fuelled start to the year.



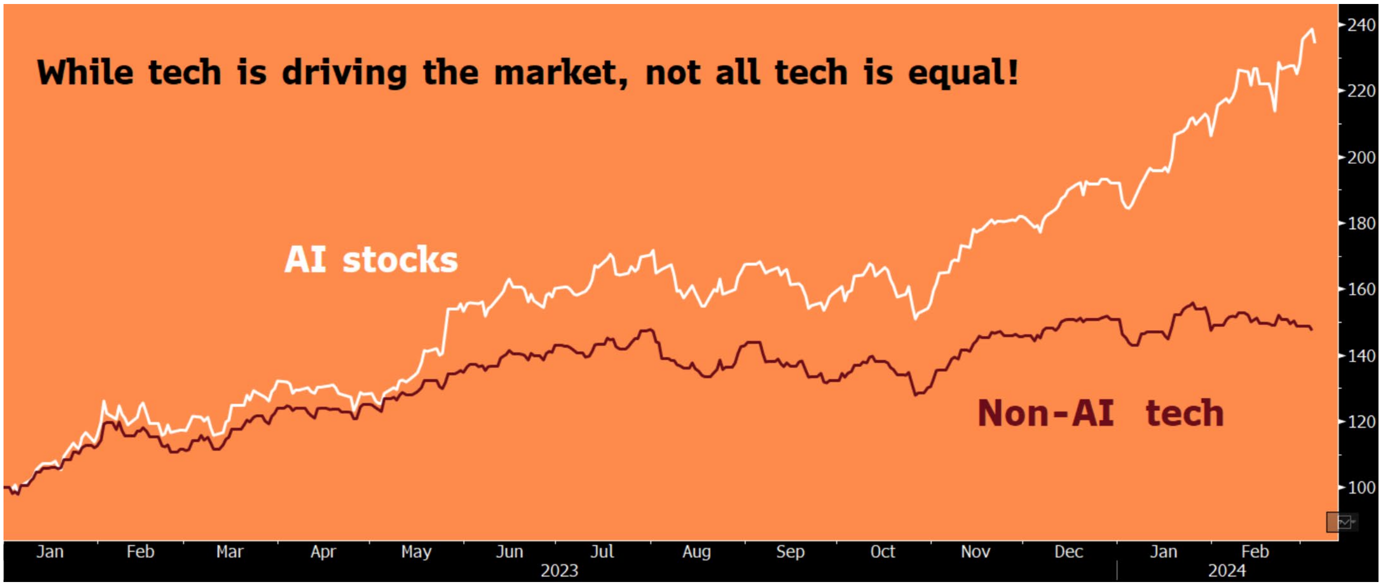
Source: Bloomberg

As can be seen from the 35-year graph above, investor sentiment is bullish and getting more so, but to us it's too early to use the word 'bubble'. Having said that, the following two graphs suggest the quality of the recent rise in stocks is somewhat questionable. The graph below, which begins with 2019, compares the forward earnings estimates for the S&P 500 (orange line) with the same metric for the S&P 493, ex-M7. As you can see, earnings for the 493 have been flat for almost two years. Of course, it's this reality combined with the material outperformance of the M7 stocks that catalyzes the current debate about the rich, though non-'year 2000-like' valuation of the M7.



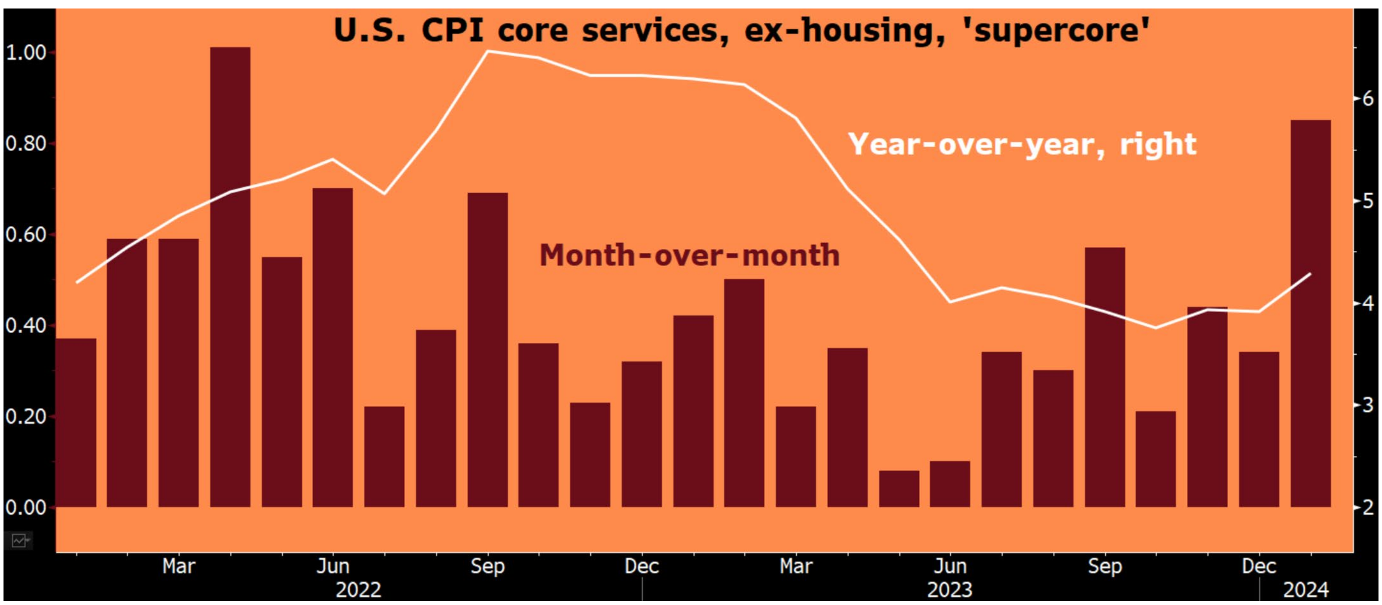
Source: Piper Sandler

The fundamentals remain robust for the M7 stocks with revenue growth approximating 15%, expanding margins and aggregate earnings growth of 60%. In contrast, sales growth for the 493 is roughly 3%, margins have fallen 50 basis points and as shown above, earnings growth is flat. Yet, at more than 30X earnings and almost 20X EBITDA, as value-oriented investors, our funds have exposure to several of the M7 stocks, but are also short Apple Inc. (AAPL.US). Interestingly enough, while the Tech sector has clearly been dominating market averages, the graph below suggests even within technology, breadth isn't that great.



Source: Bloomberg

In shifting to the 493, despite a continuing 'strong enough' U.S. economy, the two-year streak of flat forward earnings expectations has continued. What does this suggest about forward profit forecasts if GDP softens during the back half of 2024 or in 2025, especially if 'supercore' CPI stays sticky? It has remained our contention that the price of everything is structurally higher, hence people need to get paid more money. In addition, unless there is a recession, demographic challenges should continue to ensure wage growth stays above the estimated 2% range required to have inflation at the Fed's target.



Source: Bloomberg

The right side of the two-year graph above illustrates that CPI 'supercore' increased markedly last month and the increase was broad-based. While it will still just be one more month, we'll know on March 12th if last month's spike was an aberration or a potentially more enduring inflationary problem. What's safe to say is the answer on the 12th will introduce a marvellous set-up for the Fed press release and press conference on Wednesday, March 20th. Of course, beyond hints on if and when the first rate cut may be forthcoming, Chair Powell has promised some guidance on the future of QT. With the reverse repo (RRP) expected to dwindle to zero during the second quarter and treasury issuance continuing to rise, a decision by the Fed to continue to shrink its balance sheet may catalyze a liquidity drain later this year. While interest rates and profit growth are important for markets, frankly it has been the continuing abundance of liquidity that has ultimately been driving markets. Should that change, markets may change!

Our funds continue to be net long equities but, as always is the case, maintain significant equity market hedges (especially the Russell 2000) alongside a diversified portfolio of short positions. While the degree of recent strength in markets has surprised us, we are pleased with the continued participation by our funds. We will continue to strive to earn competitive net returns and protect your hard-earned capital in rougher markets.

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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