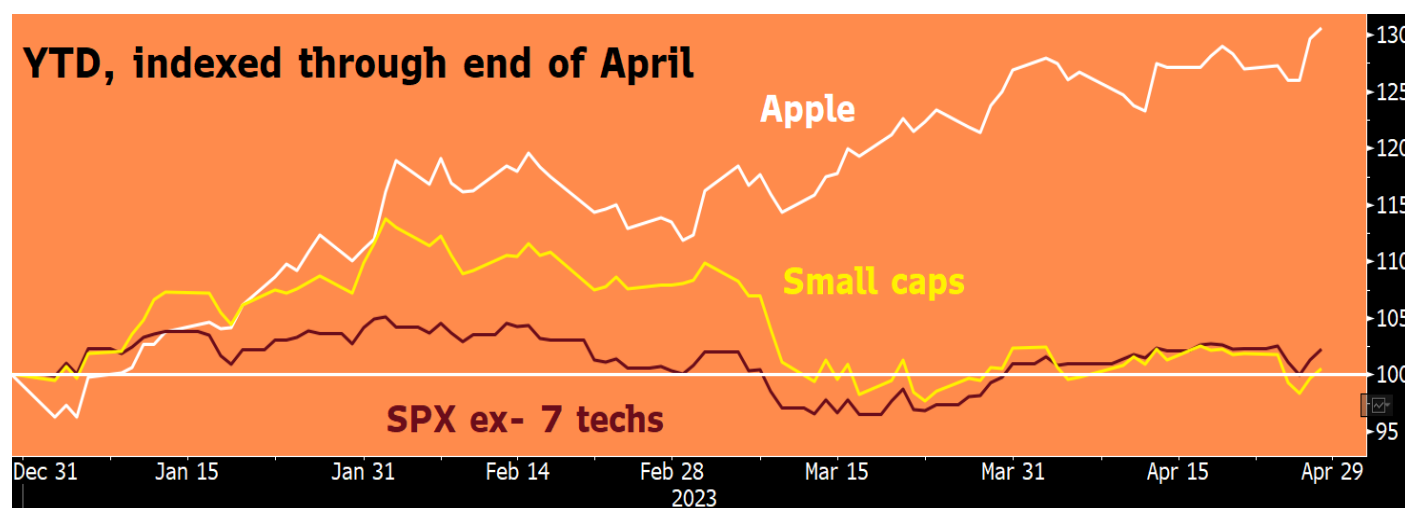


April 2023 Commentary

A more gently slowing economy and 'sticky' inflation combined to cause late April, Q1 S&P 500 (SPX) earnings to print better than recently lowered estimates. This 'beat', combined with investor positioning focused on not wanting to miss the traditional 'Fed is done' rally, catalyzed the +2.87% surge in stocks during the last two trading days of the month, enabling the SPX to print a 2nd consecutive positive month.

However, notwithstanding better end of month breadth, there's little question that "big tech" continues to drive the proverbial bus. On average, these stocks which constitute ~25% of the S&P 500 have climbed almost 45% during the first four months of 2023, and contributed to more than 80% of the SPX's YTD gains. In contrast, the other ~3,000 stocks in the Russell 3000 Index have shown an average return of -1% and are on the verge of printing new multi-year lows in breadth. Such notable and growing divergence between large and small cap equities is obvious from the year-to-date indexed graph below comparing Apple Inc. (AAPL.US), up roughly 30% YTD, the Russell 2000 Small Cap Index (yellow line), and the S&P 500 excluding the seven largest tech stocks (red line).



Source: Bloomberg

Despite the more cyclical bias to our domestic market, the table below confirms market breadth has been far better on Canada's TSX Index than the S&P 500. Whether this trend continues will largely be determined by the trajectory of economic growth and the interest rate policy of the U.S. Fed. Weaker economic growth that either forces (growth) or enables (inflation) the Fed to cut rates sooner than we expect would likely hurt the cyclically biased Canadian market relative to the growth-oriented U.S. stock market.

S&P/TSX Composite Total Return Index		
Sector	April	YTD
Banks	2.9%	3.3%
E&P	7.5%	3.6%
Materials	3.2%	11.6%
Gold	4.0%	15.1%
Technology	1.5%	28.4%
Industrials	0.6%	7.2%
Discretionary	1.4%	6.1%
Staples	1.3%	9.2%

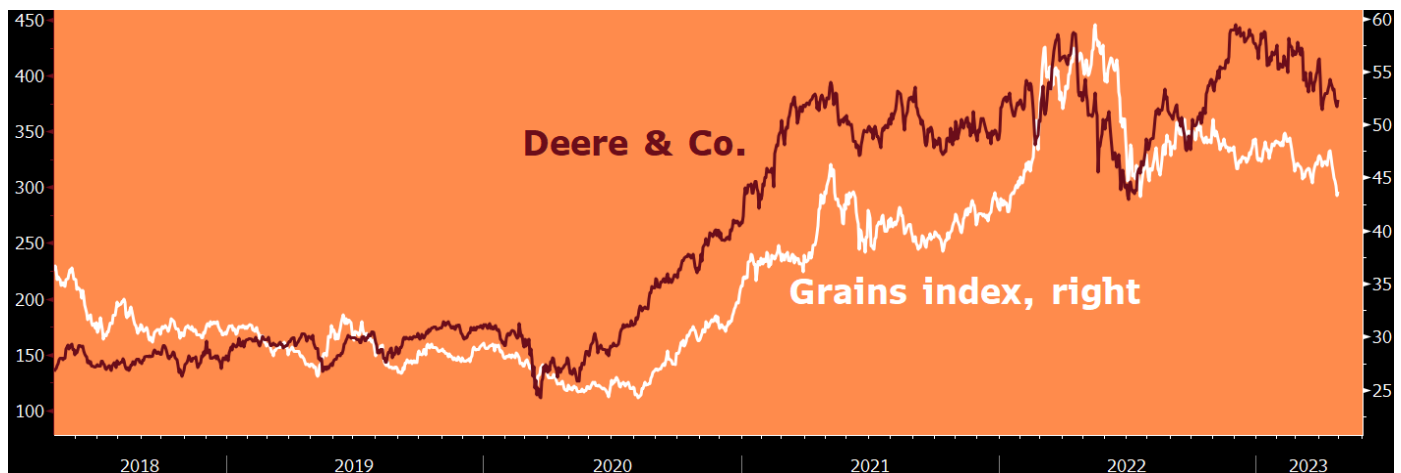
Source: Bloomberg

As of April 30, 2023	-----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)	1.90%	1.75%	0.16%	-0.35%	-6.91%	11.71%	8.77%	12.15%	13.33%
Forge First Multi Strategy LP (Class F Lead Series)	0.55%	0.07%	-0.21%	2.39%	-0.57%	11.45%	8.03%	9.28%	10.46%
S&P/TSX Composite Total Return Index	7.59%	2.90%	0.17%	7.99%	2.67%	15.15%	9.03%	8.40%	8.68%
S&P 500 Total Return Index (C\$)	9.35%	1.78%	4.49%	7.94%	8.55%	13.48 %	12.68%	15.58%	16.23%

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.

During April 2023, each of our two funds posted positive net returns. The Class F Lead Series of our Long Short LP generated a net return of +1.75%, boosting its year-to-date net return to +1.90%. Returns for the month reflected strong security selection with Canadian Natural Resources Ltd. (CNQ.CA), Bombardier Inc. (BBD.B.CA), Tourmaline Oil Corp. (TOU.CA), Las Vegas Sands Corp. (LVS.US) and Agnico-Eagle Mines Ltd. (AEM.CA) being the top five winners, sector diversification (Energy, Industrials, Consumer, and Materials) and positioning, given Bombardier Inc. was a short position for the fund. ETFs (market hedges) was the only sector to post a notable negative return for the month, while Energy and Materials were the largest positive contributors by a reasonable margin. The Long Short LP exited the month with delta-adjusted gross and net exposure of 112% and -3% respectively.

The fund shorted Bombardier Inc. in the high C\$60s due to its aggressive financial leverage (greater than 4X EBITDA), the highly cyclical nature of the business jet marketplace, and its book-to-bill ratio of less than 1X. Recent quarterly results exhibited a continuation of the sub 1X book-to-bill and an unexpected burn versus generation of free cash flow. Our ongoing short position in Bombardier Inc. is complemented with listed options. The fund also continues to be short farm equipment maker, Deere & Co. (DE.US).



Source: Bloomberg

The five-year graph above compares the share price performance of Deere & Co. (red line) to a price index of grains. It's our view that given continuing high input costs for the farmer, combined with corn futures having decisively broken below US\$6/bushel, farmers are likely to defer the purchase of big-ticket items. At the same time, as of now, we note there is no strain on Deere's US\$38B customer receivables book, as both non-performing loans and delinquencies sit below year earlier levels. Given almost all rate hikes by the Fed have occurred since mid-year 2022, we suspect it's only during H2 of this year that credit cracks will begin to appear across the North American economy.

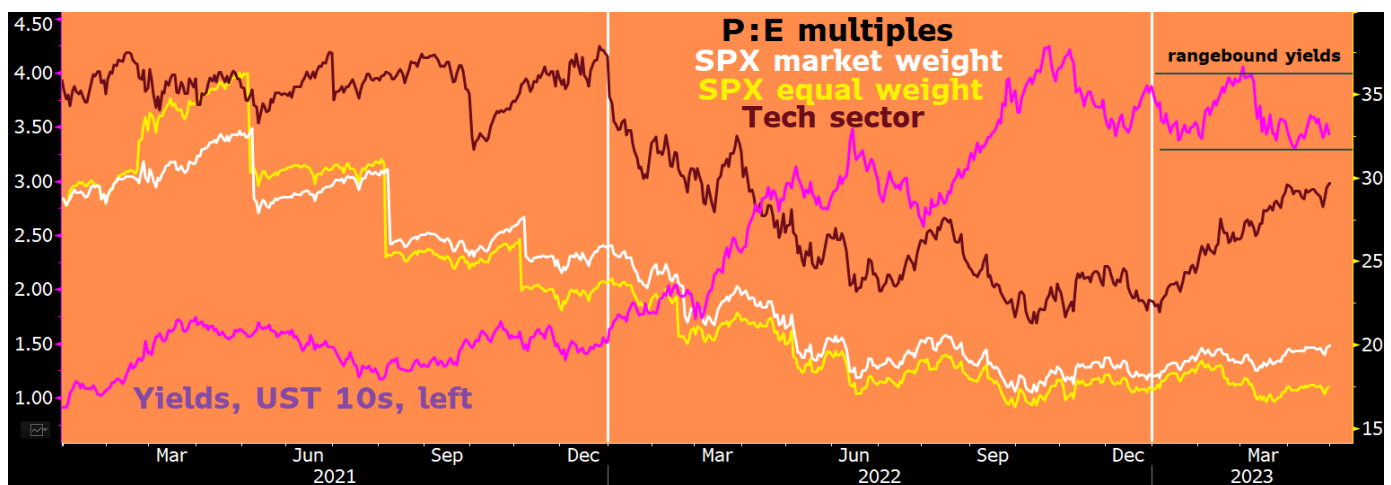
A winner on the long side for both the funds has been Las Vegas Sands Corp., the name of which is a misnomer as this casino operator does not own a property in Las Vegas! Purchased as a proxy on the return of the Chinese tourist, first quarter results exhibited a faster pace of recovery than anticipated by the market. While consensus estimates for FY23 EBITDA moved up by 15% after these results, updated estimates still represent just 70% of the levels achieved during 2019. Given EBITDA from the company's operations in Singapore are already back to 100% of 2019 levels and its Macau properties offer big upside from

their current operating rate of just 50%, our analysis suggests the investment community remains too conservative with its forecasts.

The Class F Lead Series of our low volatility, multi-asset Multi Strategy LP eked out a small gain for the month of +0.07%, taking its year-to-date net return to +0.55%. Gains in each of the multi-asset and capital growth sleeves were largely offset by losses in the asset protection sleeve, especially during the strong market conditions exiting the month. Positions in the Technology and Real Estate sectors were the most positive contributors, while market hedges represented the largest drag on performance. Winning positions included GFL Environmental Inc. (GFL.CA), Boyd Group Services Inc. (BYD.CA), and Lumine Group Inc. (LMN.CA), the recent spin-off from our long time holding, Constellation Software Inc. (CSU.CA). The Multi Strategy LP exited the month with delta-adjusted gross and net exposure of approximately 100% and 19% respectively. This net exposure was split between a 18.5% position in the multi-asset sleeve of the portfolio and a 0.1% net long position in common equities.

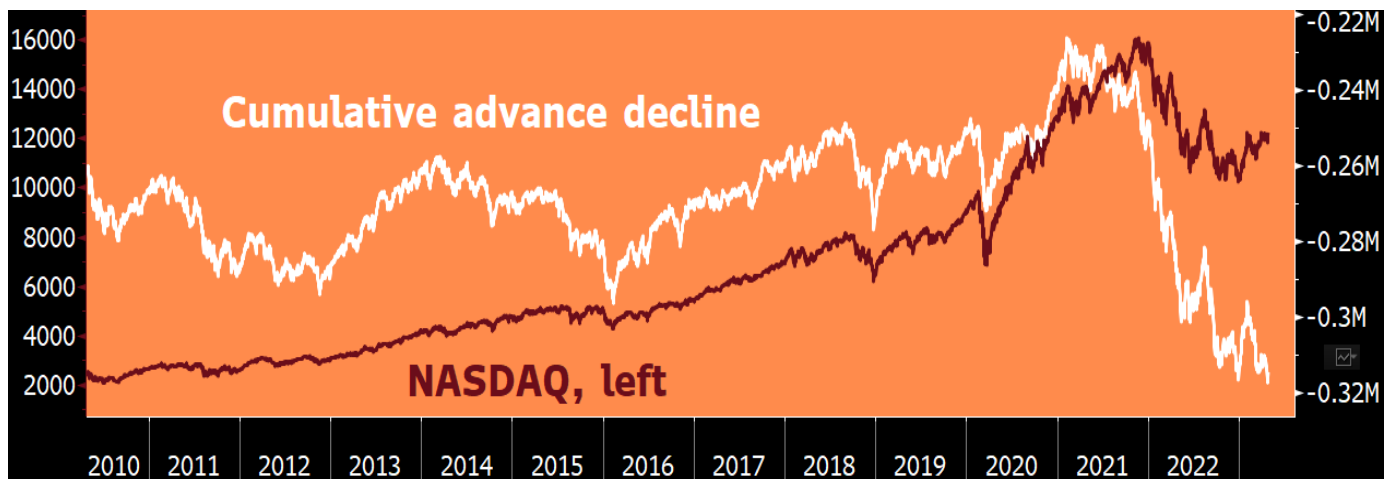
During the month, this fund continued to reposition for weaker economic growth due to increased conviction that markets are transitioning from concerns about inflation and the Fed to worries about the forward trajectory for GDP. As discussed below, whether it's the weaker consumer spending commentary from commercial banks, payments companies or large retailers, the lagged impact of monetary policy, weak freight markets, or tighter bank lending standards, to us the writing is on the wall that corporate revenue growth will be tougher to find during the next 12 months. Hence, the focus of the fund will continue to include owning quality/profitability factors and listed credit. Also, we expect there to be opportunities during the 2nd half of this year to extend duration, own government bonds (post a TGA rebuild), and to continue to short cyclical on market bounces.

Shifting back to the recent tape action, the two-year graph below displays the P/E multiples for the S&P 500 Technology sector (red line), against the market-weighted (white line) and equal-weighted (yellow line) indices for the S&P 500 on the right axis. The white vertical bars mark the end of calendar year 2021 and 2022 respectively and the pink line on the left axis illustrates the yield on a U.S. 10-year government bond. Note the multiple compression during 2022 as rates moved higher, especially for the Tech sector. Then year to date during 2023, notice a) the marked recovery in the valuation accorded tech stocks (to 29.7X for the sector) despite a rangebound yield on U.S. treasuries, and b) the absence of a bounce in the valuation for the equal-weighted S&P 500 (17.5X). In fact, in just looking at the macro-cap tech stocks, ex-Tesla, their average P/E was 49X during late 2019, 46X at year-end 2021, 22X at year-end 2022 and today, despite far lower rates of revenue and profit growth, have climbed back to 42X.



Source: Bloomberg

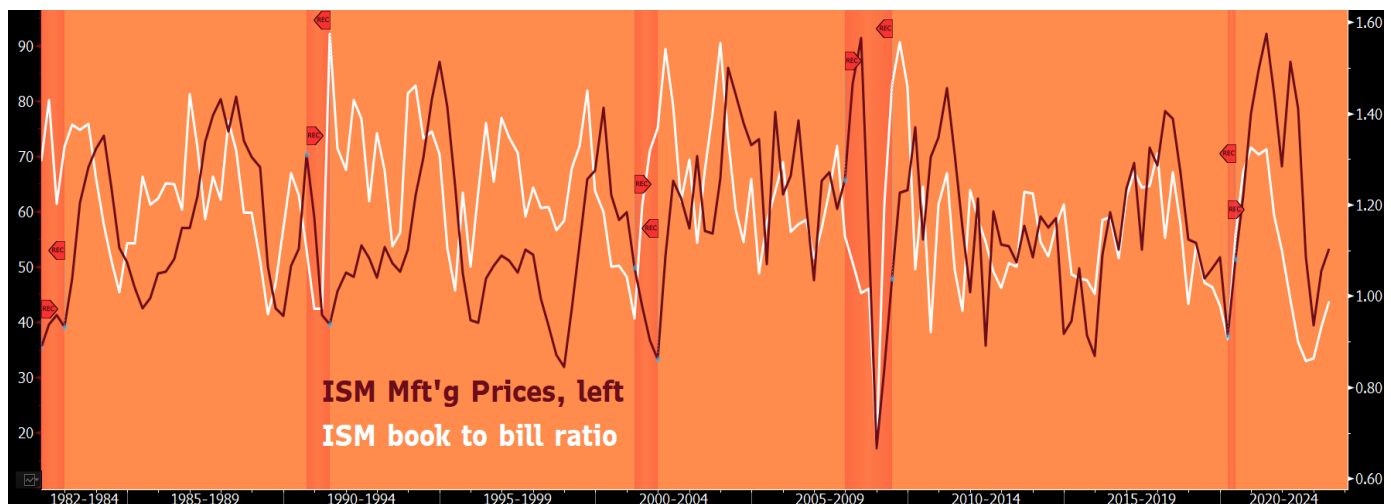
Notwithstanding this valuation expansion, the following graph comparing NASDAQ's price quote (red line, left axis) against the cumulative advance decline line (white, right axis) suggests index breadth is poor as fewer stocks have participated in the recent rally. While some market technicians may view this graph constructively, suggesting when breadth improves, averages are likely to move higher; we'll take the other side of that trade, thinking it's a sign that NASDAQ is nearing the end of its rally.



Source: Bloomberg

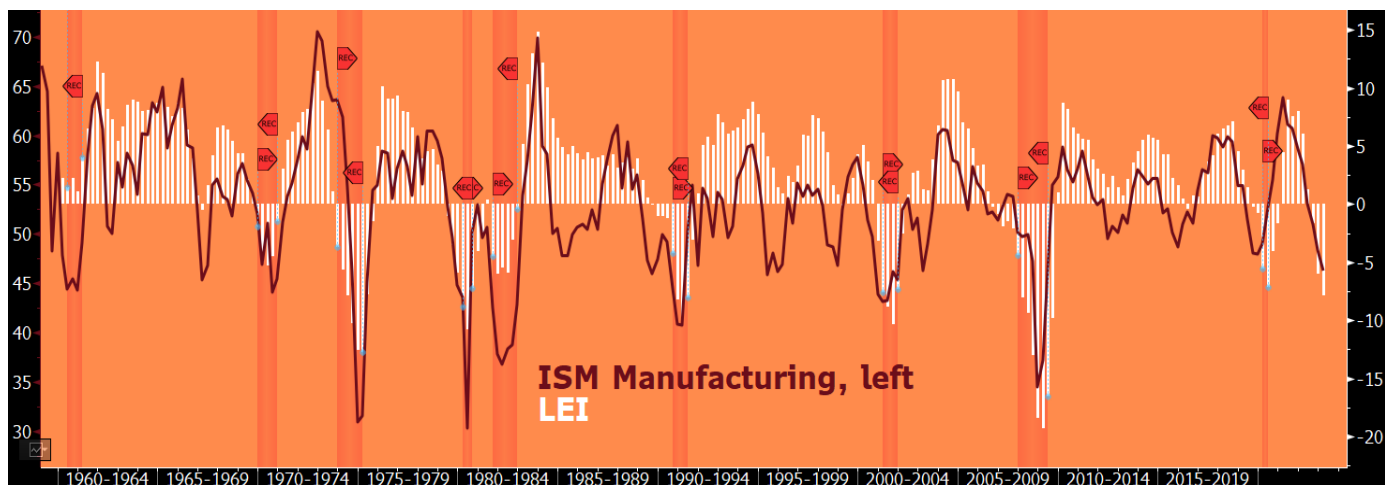
At the same time, we believe the share prices of cyclical-based businesses will also face renewed downward pressure due to our above-mentioned expectation of weakening economic growth and sticky inflation. However, it's important to point out that one apparent difference of today's downturns from when your author was growing up is the tendency for rolling, sector recessions versus the broad economic recessions experienced back when China was merely entering the global economy and cell phones were nine inches tall, weighed 2.5 pounds, had 30 minutes of battery life, and sold for US\$4,000!

As shown on the right side of the 40-year graph below comparing ISM Manufacturing prices (red line, left axis) to the ISM book-to-bill ratio (white line, right axis), recent data has shown a nice bounce. Unfortunately, the improved book-to-bill is likely driven by inventory levels being their lowest since the Fall of 2020, while it's possible the bounce in pricing implies that we've seen a bottoming in the pricing of goods.



Source: Bloomberg

Further, the following 60+ year graph suggests there remains a high probability of a recession in the U.S. as leading economic indicators (LEI, white vertical bars, right axis) appear highly correlated to the ISM Manufacturing prints (red line, left axis). Dismal guidance from United Parcel Service Inc. (UPS.US) and news last week from FedEx Corp. (FDX.US) of their intent to close 29 locations and furlough an undisclosed number of workers, were also supportive of the weakening economy. We hasten to add, this FedEx news comes just weeks after the company announced plans to combine its air and ground shipping operations as part of a \$4B cost-cutting plan driven by slowing demand.



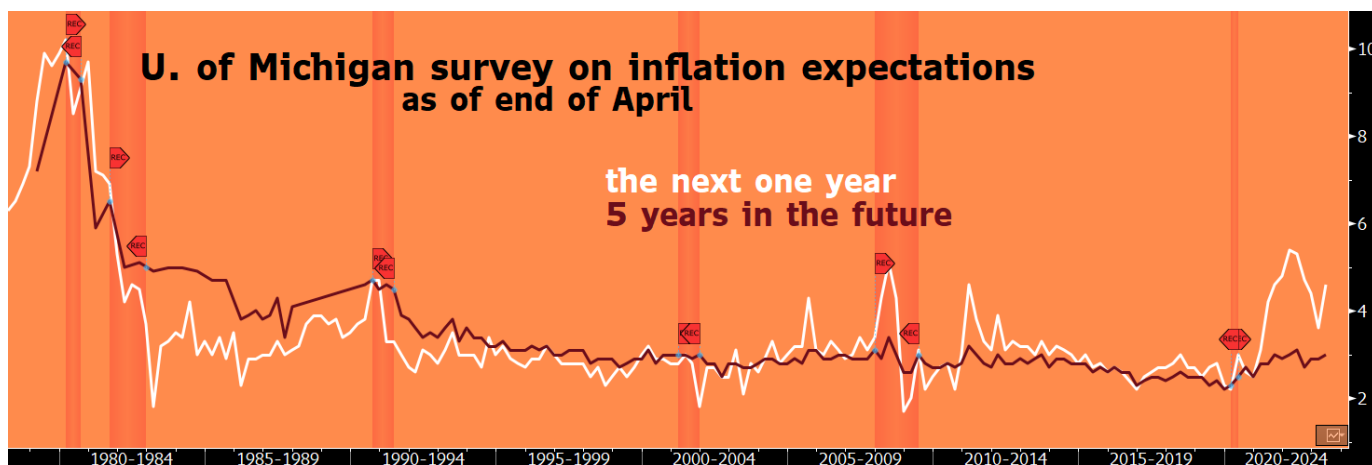
Source: Bloomberg

We also found these comments from Amazon.com Inc.'s Q1 conference call to be particularly interesting:

- "The uncertain economic environment and ongoing inflationary pressures continue to be a factor and we believe it's continuing to drive cautious spending across consumers. This means our customers are looking to stretch their budgets further and are focused on value. We saw some moderated spending on discretionary categories as well as shift to lower price items and healthy demand in everyday essentials, such as consumables and beauty".
- With respect to AWS (Cloud), "Given the ongoing economic uncertainty, customers of all sizes in all industries continue to look for cost savings across their businesses, similar to what you've seen us doing at Amazon. As expected, customers continue to evaluate ways to optimize their cloud spending in response to these tough economic conditions in the first quarter, and we are seeing these optimizations continue into the 2nd quarter with April revenue growth rates about 500 bps lower than what we saw in Q1".

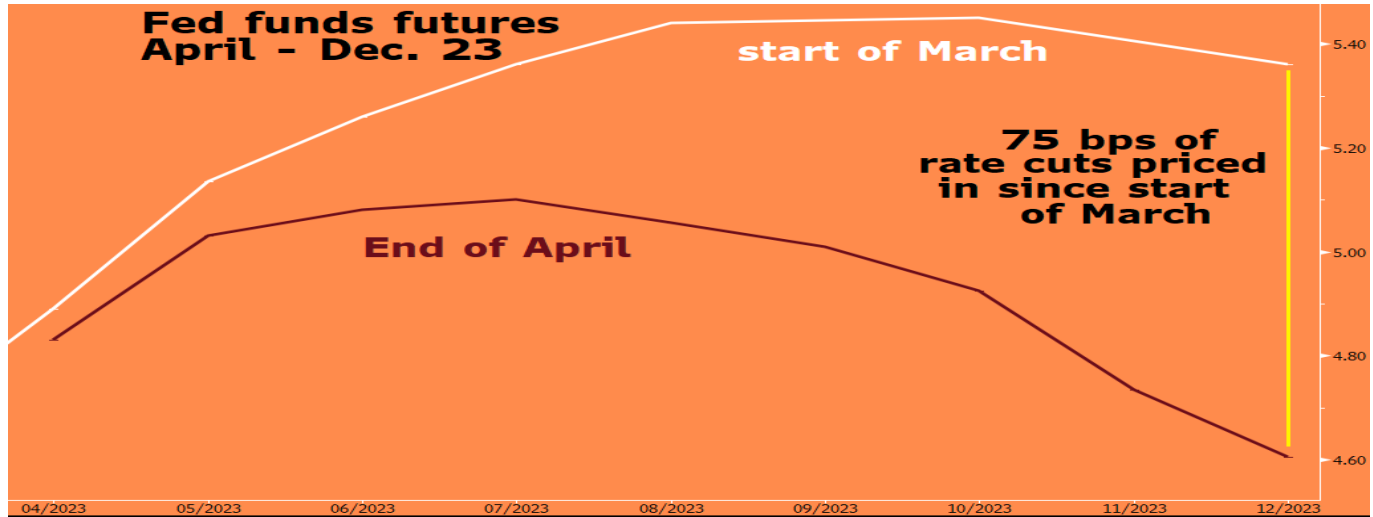
At the same time, sure, inflation is slowing, but unless the Fed changes its tune on its inflation targets, price data is nowhere close to being supportive of the rate cuts currently priced into the market. The average of U.S. CPI Core Services ex-Housing rose to 6.5% during March from 5% in February. Stripping out volatile airfares and healthcare prices (which are generating a persistent small drag each month due to how they are modeled), this measure ticked down to 6.5% from 6.6%. CPI data for April will be released on May 10th, followed by PPI on the 11th, and PCE on the 26th to close out the monthly inflation data releases. There's little question that a full-on recession should bring inflation closer to the Fed's target in a reasonably timely fashion. However, if the economic optimists are right, while the march to 3.5% inflation should remain easy, the road to the mid to low 2s will be particularly tough.

Besides worrying about the current data on prices, the Fed received a modestly nasty surprise with the University of Michigan's recent inflation expectations survey for the month of April. As you see on the right side of the 40+ year graph below, the public's belief on the rate of inflation one year from now (white line) moved back up to +4.6% last month, implying inflation staying 'higher for longer' is becoming engrained in the minds of consumers. Consequently, we find the market's continued assumption of H2 2023 rate cuts by the Fed to be optimistic.



Source: Bloomberg

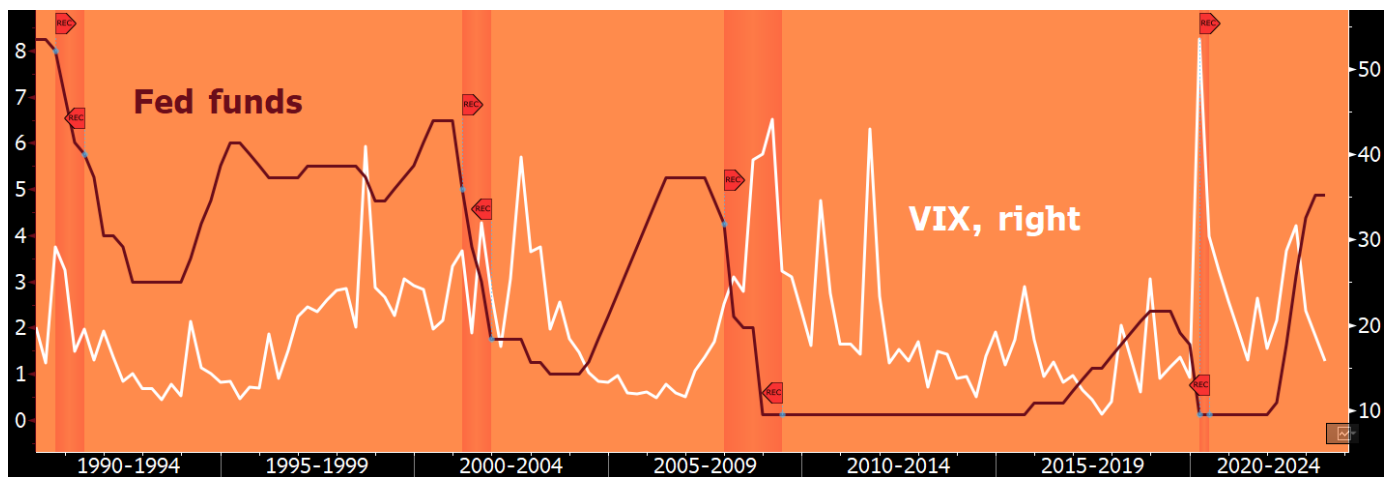
As shown in the graph below which illustrates the market's expectation of the level of Fed Fund futures from April through December 2023, since the beginning of March, the predicted December 2023 Fed Funds Rate has declined by 75 basis points. For this estimate to be accurate, either inflation has to march markedly lower in a very timely fashion or presumably the unemployment rate has to comfortably exceed the Fed's 'dot plot' consensus of Fed Funds remaining above 5% into 2024 despite the jobless rate exiting 2023 at 4.5%; a full 100 basis points above the print for March (which by the way was only 10 basis points above the all-time low!). For us, something doesn't add up here because, if the markets are correct about rate cuts, then the weakening economy is bound to take profits estimates distinctly lower than where they sit today.



Source: Bloomberg

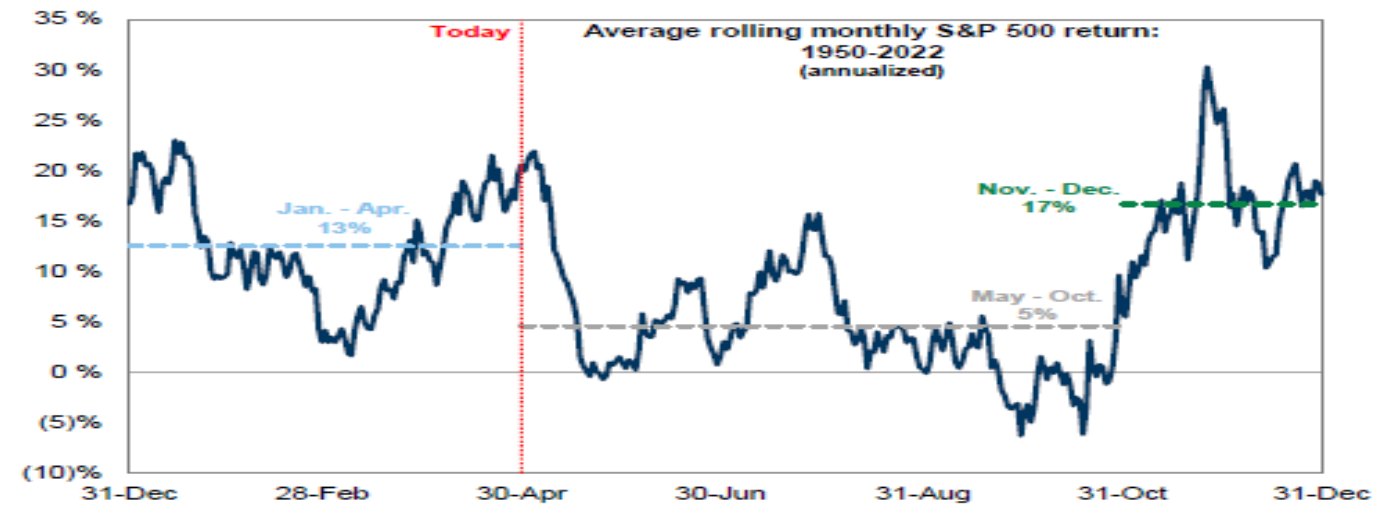
Our bottom line is simple - we believe that monetary policy accommodation peaked in the Fall of 2021 and the medium term will see ongoing compression in valuation multiples, weak economic growth, and inflation that will fall but stay above the levels witnessed in the years after the financial crisis of 2008. This explains why our funds maintain their defensive posture. It also explains why our investment team has been finding more short ideas than long ideas of late. However, we're also aware there remains a sea of liquidity out there, an amount that will only begin to shrink as we move forward during 2023 and next year. As you frequently read, we're well aware that we must remain pragmatic in our thinking towards the macro environment and in the structuring of client portfolios.

In closing, we will leave you with two graphs that caught our eyes this month. The first graph compares the Fed Funds Rate (red line, left axis) against the VIX index (white line, right axis) with the shaded vertical bars marking recessions. Given how low the VIX has been of late, we found it interesting that each time (during this 30+ year period) the Fed Funds Rate has been cut, the VIX has increased. As is often stated, 'be careful what you wish for', since a rising VIX is associated with rocky markets.



Source: Bloomberg

The second graph speaks to the old adage of whether to 'go away in May', or in today's world, shift from long only to a long/short, liquid LP fund! Courtesy of Goldman Sachs, the graph below suggests that since 1935, the Dow Jones Industrial Average has risen an average of 46% off the mid-term year low (this time October 2022) during the 3rd year of a Presidential cycle. This cycle, since late October of last year, the Dow has gained 12.4%.



Source: Goldman Sachs

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.

As an aside, we wish to inform you that "Weekly with Andrew McCreath" (BNN Bloomberg-TV) has come to an end. We thank you all for your support over the years.

Andrew McCreath
CEO, CIO

Daniel Lloyd
Portfolio Manager

Keenan Murray
Portfolio Manager