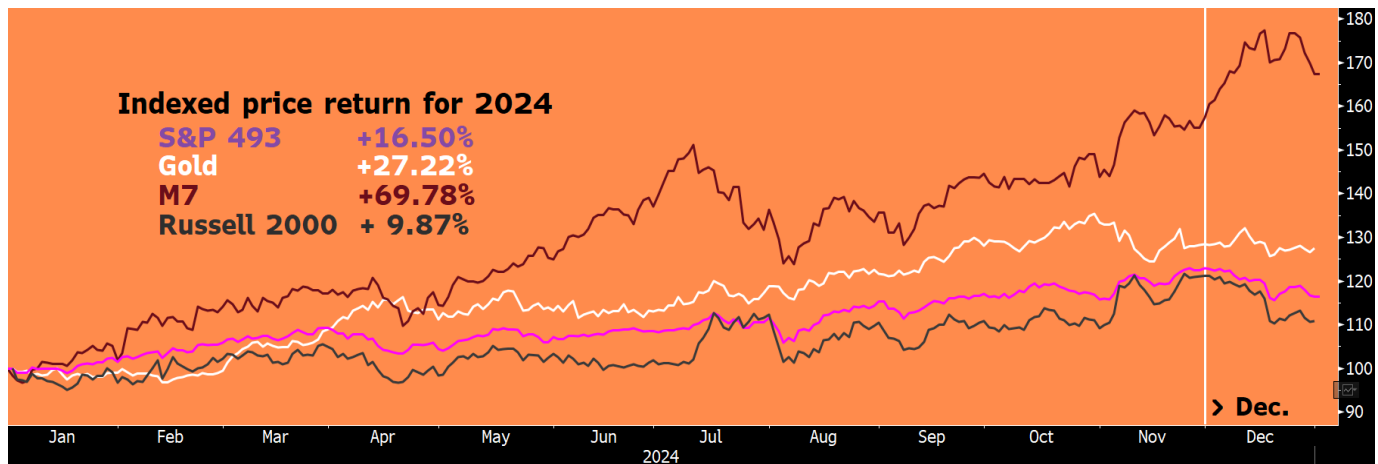


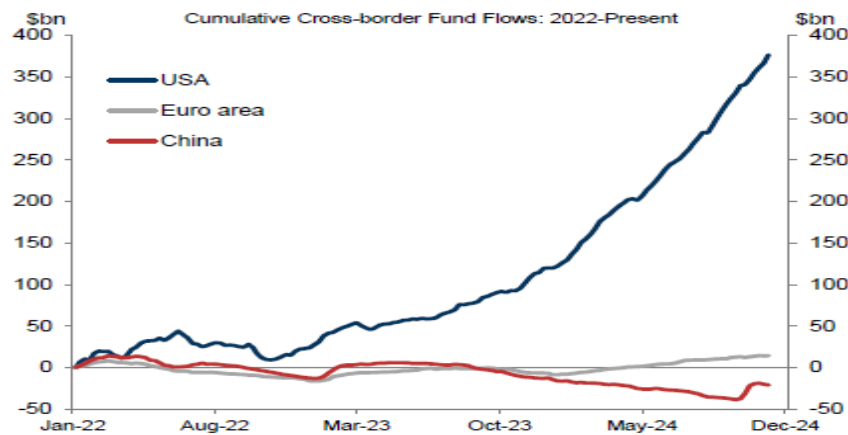
December 2024 Commentary

From this chair, last year's top story was what has been coined "U.S. exceptionalism." Catalyzed by the impact of an unprecedented amount of fiscal stimulus and ongoing ample liquidity, U.S. growth topped consensus estimates for the third straight year. Handily so for 2024, causing global investors to pile into U.S. stocks, in turn fueling a second consecutive year of >20% price gains for the S&P 500 (SPX) and a bull market in the U.S. dollar (USD). The 'Magnificent 7' (M7) accounted for 53% of last year's price appreciation for the SPX (46% of total return) while the value of the equal-weighted SPX increased +13%. Price gains for Canada's TSX totalled 17.8% (21.5% total return). This commentary will recap some highlights of last year, discuss our macro-outlook, the positioning of our funds, and the double-digit net gains of our funds.



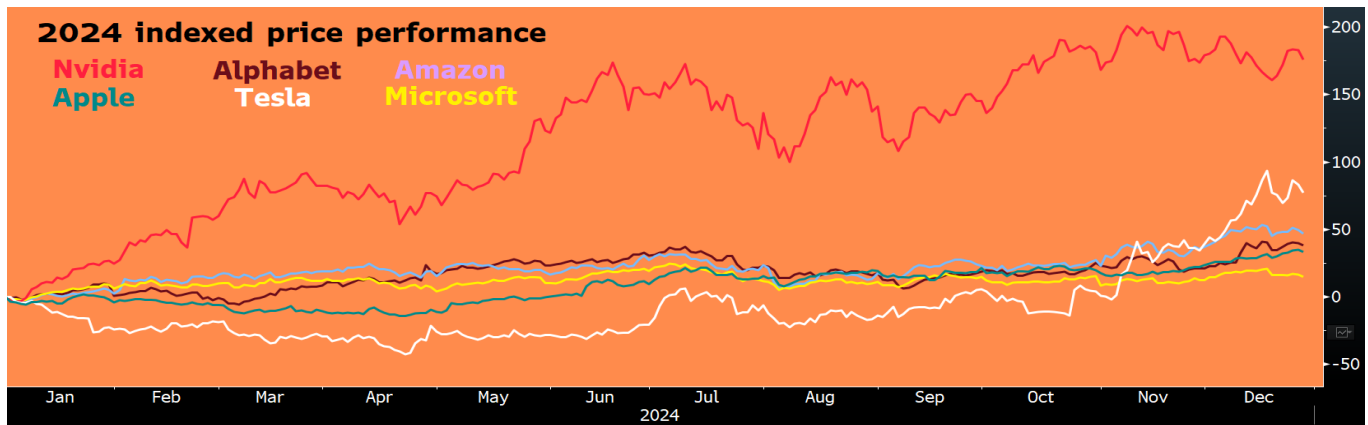
Source: Bloomberg

The U.S. hosts 4% of the world's population, approximately 25% of global GDP, 33% of world profits and now more than 67% of the market capitalization of the MSCI Global Stock Index. While it's commonplace to hear investors compare the current "AI bubble" to the '99-'00 Tech meltdown, few market participants raise the parallel of the U.S. today to Japan back in '89 when its economy accounted for less than 20% of global GDP yet their market capitalization was equal to 45% of the same MSCI index. History often rhymes but it rarely repeats.



Source: Goldman Sachs

The above graph displays the cumulative cross-border fund flows since 2022 through November 2024 into each of China (red line), Europe (gray line), and the U.S. (blue line). We doubt it is just a coincidence that flows into the U.S. began accelerating during the fall of 2022, the start of the current bull market and one month prior to the launch of ChatGPT. Also, with WTI oil trading above US\$65 all year, petroleum exporting nations generated lots of free cash with much of it buying U.S. stocks, along side U.S. corporates which purchased more than US\$1T through buybacks during 2024. While those two groups were the big buyers of stocks, there's little question retail investors joined the party once the U.S. election was in the record books, as evidenced by the year-end explosion of odd lot trades and the price action of retail favourites, most notably Bitcoin and Tesla Inc. (TSLA.US).



Source: Bloomberg

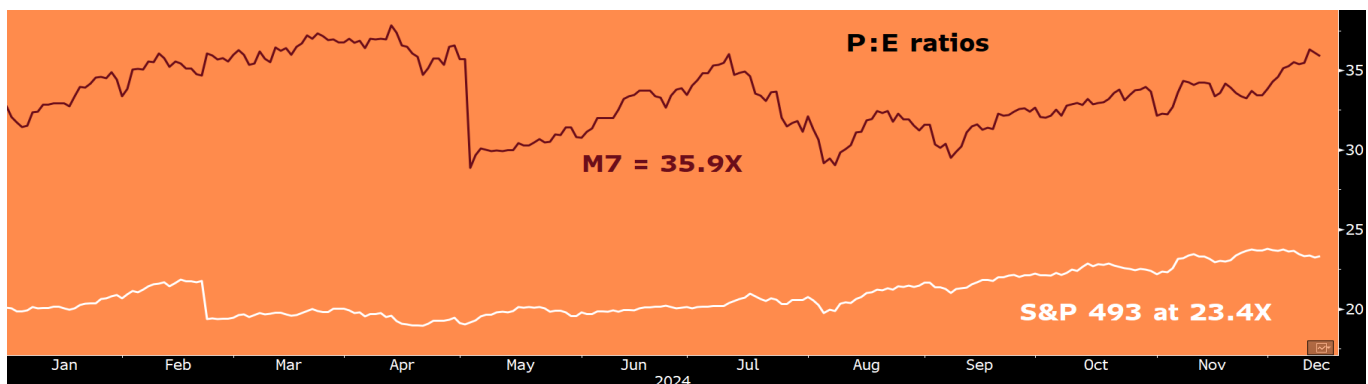
Speaking of Tesla, the white line in the above indexed 2024 price performance graph for the M7, confirms this M7 component was markedly lagging the group until just before the U.S. election. However, by the end of the year, as you can see from the right side of the graph, Tesla was the second best constituent behind NVIDIA Corp. (NVDA.US, red line), the company synonymous with AI. Post a mid-year '24 index-reweighting which reduced the individual weights of these stocks in the NASDAQ index, the M7 now accounts for just less than half of the NASDAQ and 29% of the SPX.

Hence, the price action of the M7 played a significant role in explaining which equity factors outperformed last year. The relative strength graph below makes it startlingly obvious how badly value performed versus growth (yellow line), and to lesser degrees, small to large cap stocks (dark red line) and the equal-weighted to the market-weighted S&P 500 (white line).



Source: Bloomberg

From a historical perspective last year's performance left the S&P 500 trading at lofty valuation levels. At the time of writing, using 1929 as the starting point, the SPX was trading in the 96th percentile for trailing P:E, 90% on forward earnings, and in the 95th percentile for its trailing two-year return. Its current P:E is 30% higher than its trailing 30-year average of 20X. Finally, based on Robert Shiller's CAPE ratio, the SPX is priced at more than 38X earnings. Looked at through a different lens, the graph below indicates the M7 (dark red line) is trading at 35.9X earnings while the S&P 493 (ex the M7) sits at 23.4X (white line). Smaller companies, as measured by the Russell 2000, are trading at 31.7X forward earnings. As always is the case, there are attractively priced stocks, especially among U.S. mid-caps, but the indices are far from cheap, yet it's important to note that price alone is unlikely to dictate the near-term outlook for stocks.



Source: Bloomberg

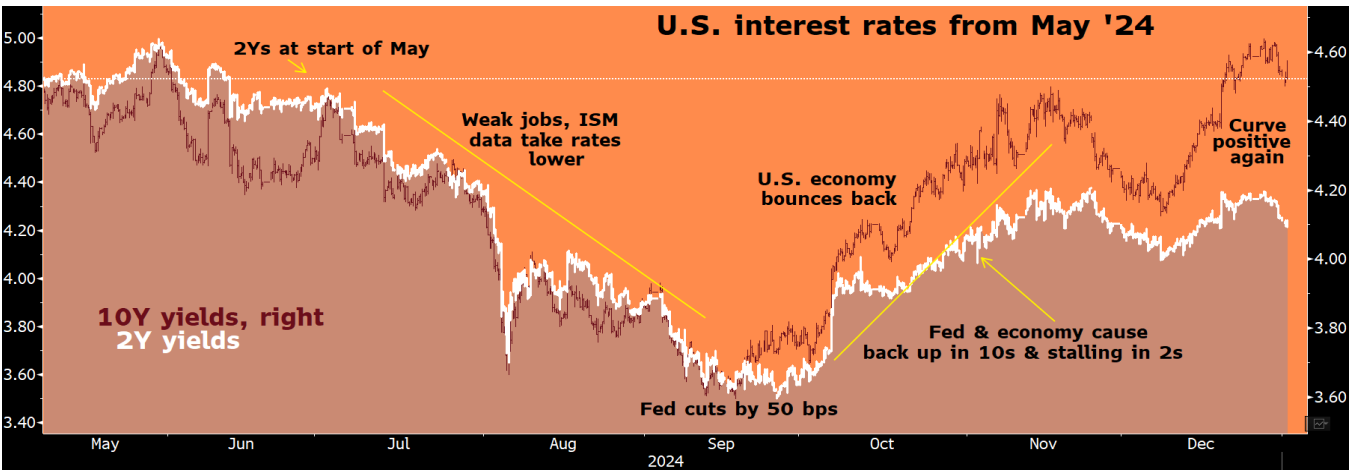
Here at home, while it's little surprise the Technology sector led the charge with a +37.96% total return followed by Gold stocks at +28.21% and Energy at +23.84%, the shocker was the -26.46% price decline in the Telcom sector with BCE Inc. (BCE.CA) closing the year at a price level last experienced during September of 2010. As can be seen in the table below, oil prices were flat but natural gas had a great year (after being down -43.82% during '23), gold bounced hard, while grains joined iron ore at taking it on the chin.

2024 Price Changes and Ex-Yields			
West Texas oil	0.10%	Iron ore	-24.02%
Nymex Nat Gas	44.51%	Grains	-19.90%
AECO Nat Gas	41.72%	U.S. dollar, 'DXY'	7.05%
Copper	2.44%	Bitcoin	1.20%
Gold	27.21%	VIX Index	39.36%
Yield, U.S. 10 Yr.	+69 bps	Yield, U.S. 2 Yr.	-0.2 bps

Source: Bloomberg

Two items stand out as being our biggest surprises of the year. The first was August 5th when Japan's Nikkei closed down -12.4% (worst day since 1987). It appears disappointing U.S. jobs data and a further rise in the yen, combined to trigger a massive unwind of the extremely crowded FX "carry trade" of short yen vs long USD. The VIX (volatility index) spot touched 65 in the pre-market that day while the S&P 500 had its worst day of the year, falling -3%. However, the 8% drop in the SPX turned out to only be a 3-day event.

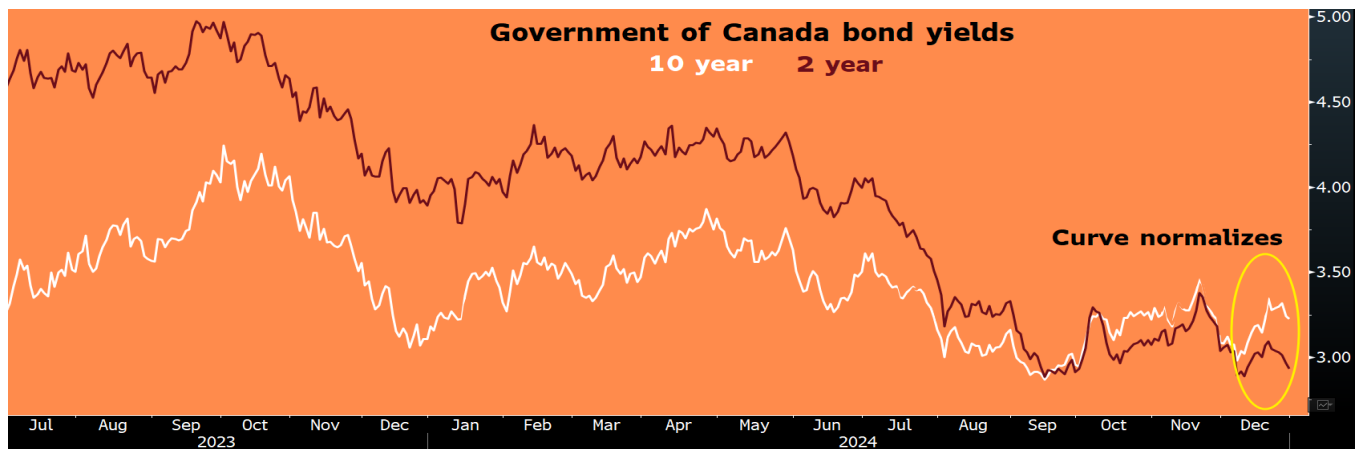
Surprise #2 for the team, was how handily President-elect Trump won the U.S. election on November 5th. Not only was the result a 'red sweep' but the election was called by noon the next day and was not contested. Hence, the VIX collapsed while 'small cap' and 'beta' factors raced out of the gate taking equity indices higher. Thereafter, both factors handed the baton back to 'large cap' and 'growth' factors, which in turn enabled the SPX to explode past 6,000 on the excitement of tax cuts, deregulation and a more business friendly backdrop. Sticking to our discipline, our investment team had significant protection into the election, all for naught!



Source: Bloomberg

Shifting to interest rates, the annotated graph above details the volatility in U.S. government 2-year (white line) and 10-year (red line) yields from the start of May 2024. Note how the yield curve only started to normalize after the Fed hiked rates by 50 bps at its September meeting with the reaction occurring at the 10-year point of the curve. The vast majority of this marked shift higher in 10-year yields was attributable to a rising term premium, arguably a crude measurement of the issuer's credit quality, as markets have begun to tell America it has to pay a higher rate of interest on its debt.

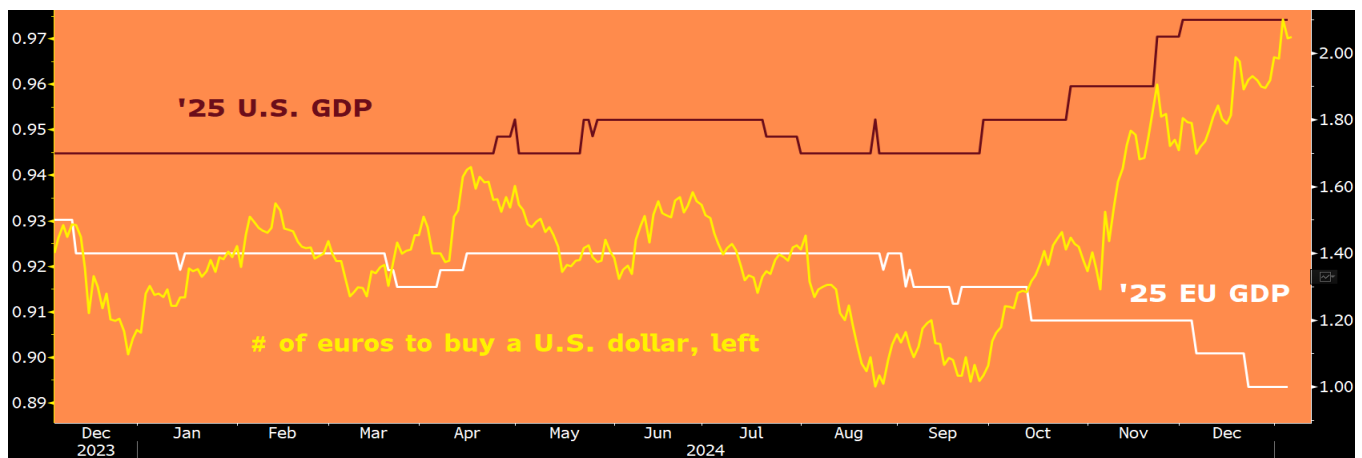
As expected, the Bank of Canada (BoC) cut rates ahead of the Fed and in a more aggressive fashion. We've started the graph of 2s (red line) and 10s (white line) below from the beginning of July 2023 so as to exhibit the magnitude of the decline to date in Canada. Note how it's only been since the start of December that the 10-2 yield curve has normalized, albeit modestly. With the CAD below \$0.70USD we expect the BoC will push the pause button in the near term.



In assessing the outlook for U.S. interest rates, U.S. fiscal policy, relative rates of economic growth, the supply and demand for duration, and inflation all need be taken into consideration. On the fiscal side, even without a rush of additional spending, America's deficit is forecasted to run to an average of 5.5% of GDP over the rest of the decade. As Yellen largely financed U.S. deficits with t-bills, 55% of Treasury debt outstanding matures before the end of 2027, including 26% of the total during 2025.

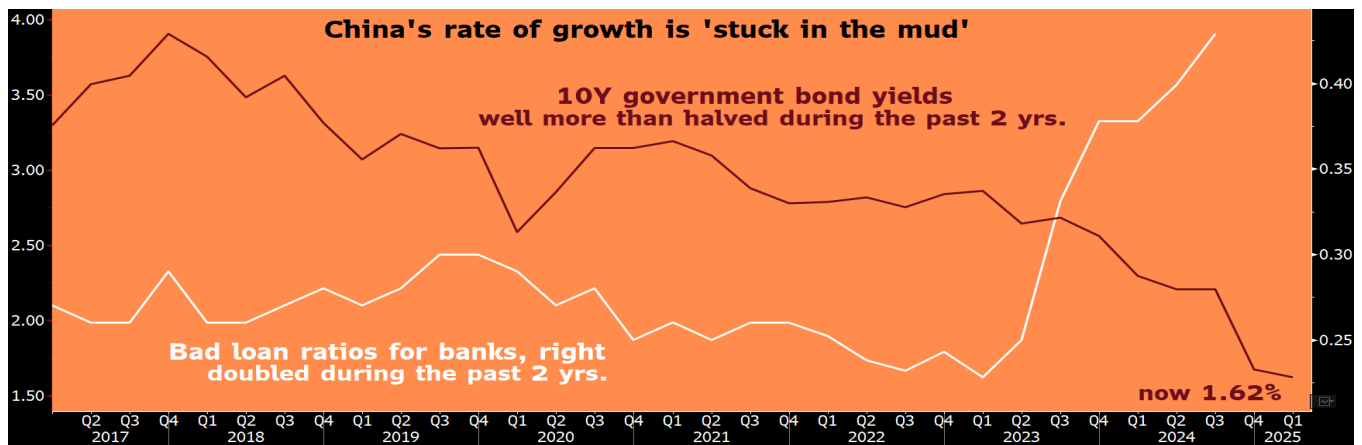
Incoming Treasury Secretary Bessent has called this funding strategy "risky," going on to say, "in addition to a higher interest expense, concentrating issuance in short tenors exposes the Treasury to greater volatility via refinancing risks and creates the potential for a financial accident". With the U.S. yield curve having somewhat normalized (+32 bps) it will be interesting to hear how Bessent plans to refinance the US\$7T of debt that will mature during 2025. The next Quarterly Refunding Announcement (QRA) comes February 3rd.

Moving to the outlook for growth, the graph below compares 2025 consensus outlooks for GDP in Europe (white line) and the U.S. (dark red line) against the number of euros it takes to buy a U.S. dollar (yellow line). To us, this graph epitomizes the quote, "a picture speaks a thousand words." Europe is a mess politically (France and Germany) and economically. The only possible catalyst is if Germany ended its "debt brake" given gross debt is just 62% of GDP, implying there is ample room for deficit spending. Looking eastward, the outlook for China isn't much better.



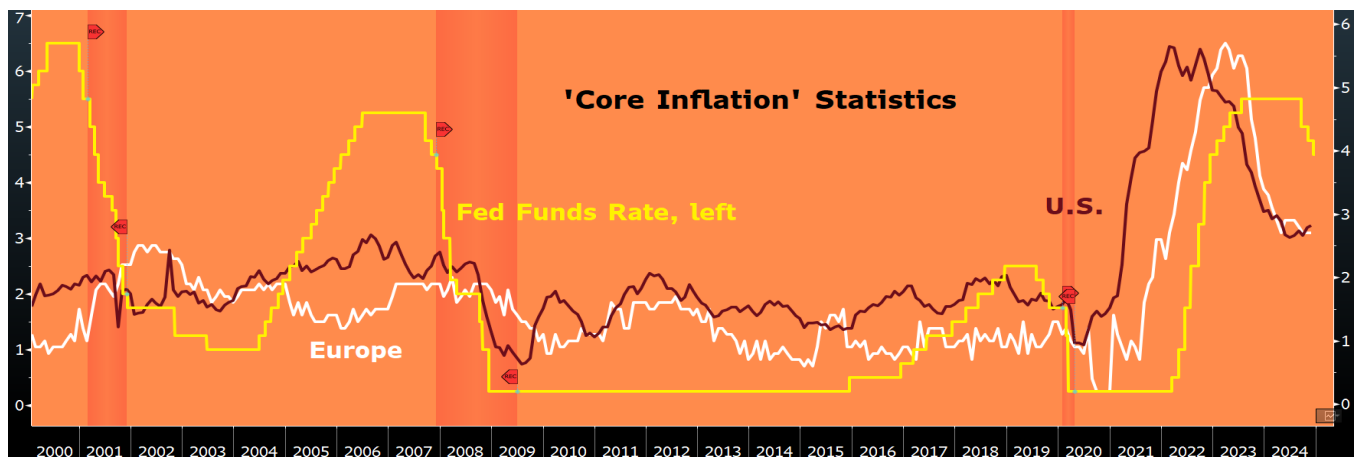
We maintain the view that despite the ongoing efforts by the government, China will at best stabilize its critical housing market and consumers will continue to refrain from opening up their wallets. Spending on new homes is expected to have declined from more than 16T RmB in 2021 to roughly half that amount last year as an estimated 32M homes remain unsold. In addition, some analysts believe idle properties, including ones purchased as investments could add another 49M to this total.

This reality partially explains why the graph below shows bad loan ratios (white line, right axis) at Chinese banks have doubled in the past two years. In turn, this deflationary theme attests to why yields on 10-year government bonds (dark red line, left axis) have steadily eroded to the recent lows of 1.62%. The next great hope for the bulls on China is the stimulus that's expected to be announced at the "Two Sessions" in early March. We'd suggest you not hold your breath, this also explains why we have little interest in commodity stocks.



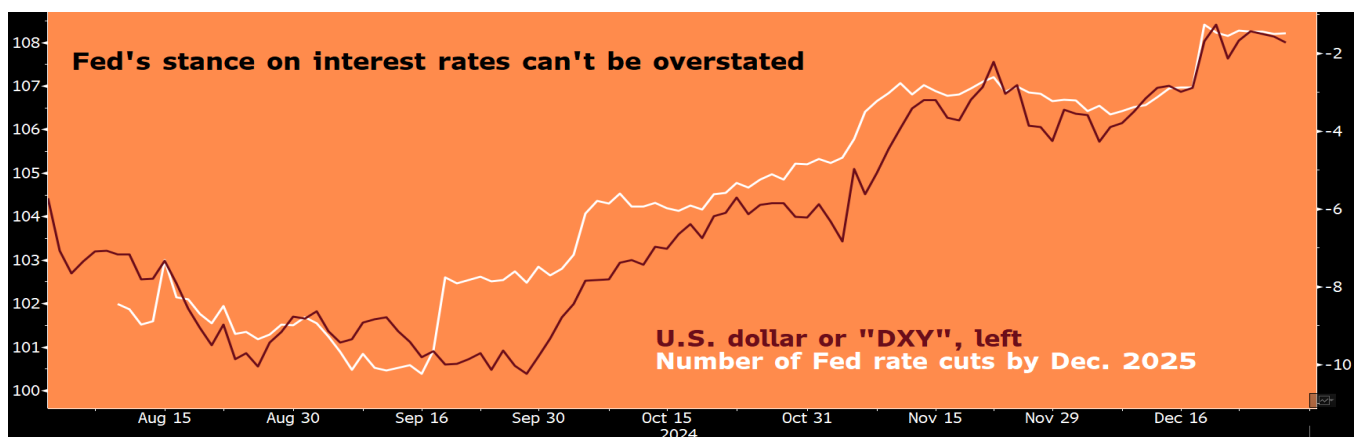
Source: Bloomberg

As for U.S. inflation, while specific, stubborn service sector variables have caused different measures of inflation to not yet reach the Fed's target (please see the graph below), it's probable levels are low enough for the Fed to restart cutting rates on any renewed downward trends in the jobs market. In contrast, if Trump follows through with actions viewed as inflationary, the Fed could opt to remain on the sidelines.



Source: Bloomberg

The call on short rates is tougher than the call on long rates. Excluding the Trump factor, due to rates of growth, Fed rate cuts are likely off the table until the second half of this year. On the other hand, rates out the curve of maturities are likely to trade at 5% before they see 4%, as despite the potential for a Q1 oversold trading rally, we believe over time the term premium has further to rise. If we are correct with this thinking, the graph below suggests the U.S. dollar (dark red line, left axis) will continue to be strong as it certainly appears the currency is closely aligned with the number of rate cuts expected from the Fed by December 2025 (white line, right axis).



Source: Bloomberg

As for our funds, our goal is to generate a competitive risk-adjusted, net return and protect capital when markets get rougher, in other words, be the "steady eddy (that) wins the race!" As you can see from the table below, each of the Class F Lead Series of our funds generated solidly positive net returns during the rocky month of December 2024 and earned greater than +15% net for the full year.

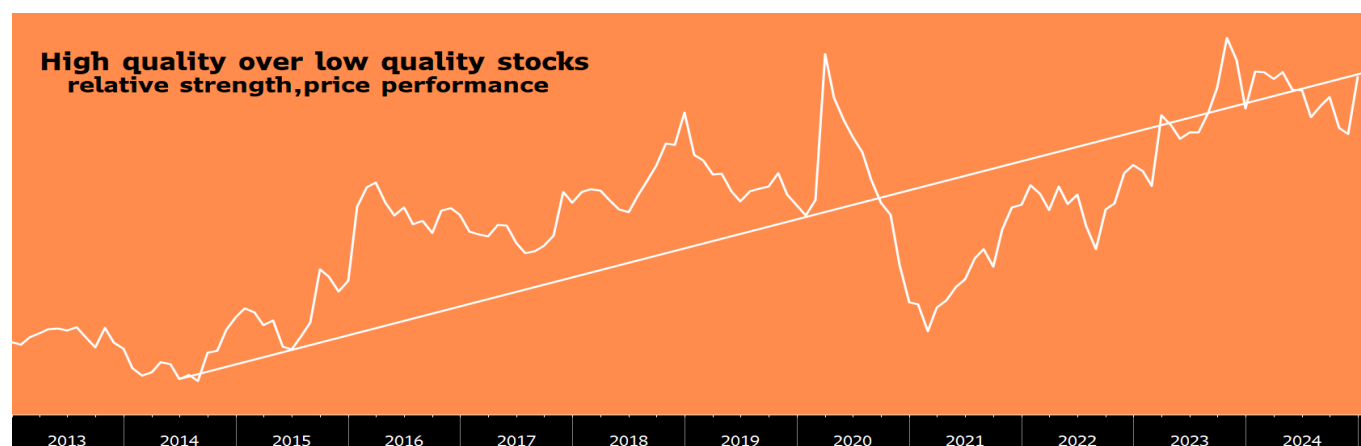
As of December 31, 2024	-----Annualized-----								
	YTD	1-mo	3-mo	6-mo	1-year	3-year	5-year	10-year	Inception
Forge First Long Short LP (Class F Lead Series)	15.05%	1.12%	2.56%	5.99%	15.05%	6.19%	10.22%	9.29%	13.25%
Forge First Multi Strategy LP (Class F Lead Series)	19.98%	2.10%	8.57%	9.62%	19.98%	9.15%	11.59%	8.38%	11.16%
S&P/TSX Composite Total Return Index	21.65%	-3.27%	3.76%	14.70%	21.65%	8.58%	11.08%	8.65%	9.52%
S&P 500 Total Return Index (C\$)	36.21%	0.34%	9.10%	14.10%	36.21%	13.72%	16.91%	15.55%	17.91%

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 positive +2.10% net gain for the Class F Lead Series of our Multi Strategy LP during December and +19.98% net for the year were fueled by gains from market hedges, Energy and Technology while return headwinds accrued from positions in Industrials and Real Estate. Notable positions during the month included our short put position on Paramount Resources Ltd. (POU.CA), long positions in chip stocks including Marvell Technology Inc. (MRVL.US) and Broadcom Inc. (AVGO.US), and short positions in U.S. homebuilders. Long positions in Industrials such as Canadian Pacific Kansas City Ltd. (CP.CA) and IES Holdings Inc. (IESC.US) endured declines thanks to fears that tariffs and a reduction in funding towards energy transition projects would hurt forward profits.

This fund exited 2024 with delta-adjusted gross and net exposure of 263% and 93%, respectively. This net exposure was split between equities (+63%) and fixed income (+30%). Net equity exposure was increased modestly towards month end as we allocated capital to securities that significantly underperformed during December. The fund also reduced its exposure to Technology during the month via overwrites and hedges. Lastly, the fund has begun to reduce hedges that in effect will further cut the duration of an already short duration (2.5 to 3-years) credit book.

The fund will add to its conviction themes and single stock positions on market pullbacks, increasing exposure to securities that offer absolute growth, upside from positive revisions, reasonable valuations, and most importantly, fit the 'quality' focused positioning of the fund. This latter point is driven by the reality illustrated by the graph below, that 'high quality' consistently outperforms 'low quality' securities.

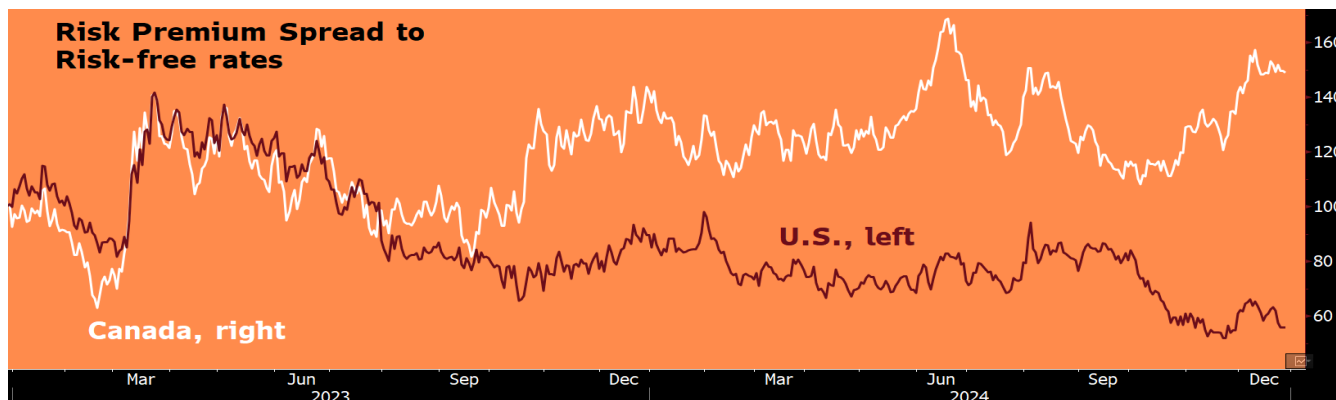


Source: Bloomberg

Similar to our Multi Strategy LP, the +1.12% net advance in December (+15.05% net for the full year) for the Class F Lead Series of our Long Short LP was led by market hedges and Technology, however, the Energy sector also chipped in nicely to positive returns. Chip stocks boosted the fund as did its large short position on the Russell 2000 index. Largely as a result of weakening rental markets across Canada, the Real Estate sector was the notable losing sector during the month. Net equity exposure was increased towards month end with trading-related additions to the beaten-up Telecom and Real Estate sectors while net exposure to Technology was trimmed modestly via overwrites. Technology, Financials, Energy, and Real Estate now total net exposure approximating 37% of the fund's total net exposure of 57% on a total delta-adjusted gross exposure of 143%.

The graph below implies why the fund increased its exposure to the beaten down Real Estate sector. Each line represents the spread between the dividend yield on the Real Estate index less the yield on the respective nations' 10-year government bond, Canadian REITs (white line) versus U.S. REITs (dark red line). Historically there has been a tight correlation between the two lines. Yet during the past couple of months this spread has blown out markedly, as Canadian to U.S. government yields have widened and the price performance of U.S. REITs has outgunned Canadian REITs. While we acknowledge the concerns surrounding the Canadian economy,

we believe REITs will prove to be more economically resilient than other sectors. We recently elected to short Bank of Montreal (BMO.CA) and The Bank of Nova Scotia (BNS.CA) as an indirect hedge to any weakening sentiment around the Canadian economy.

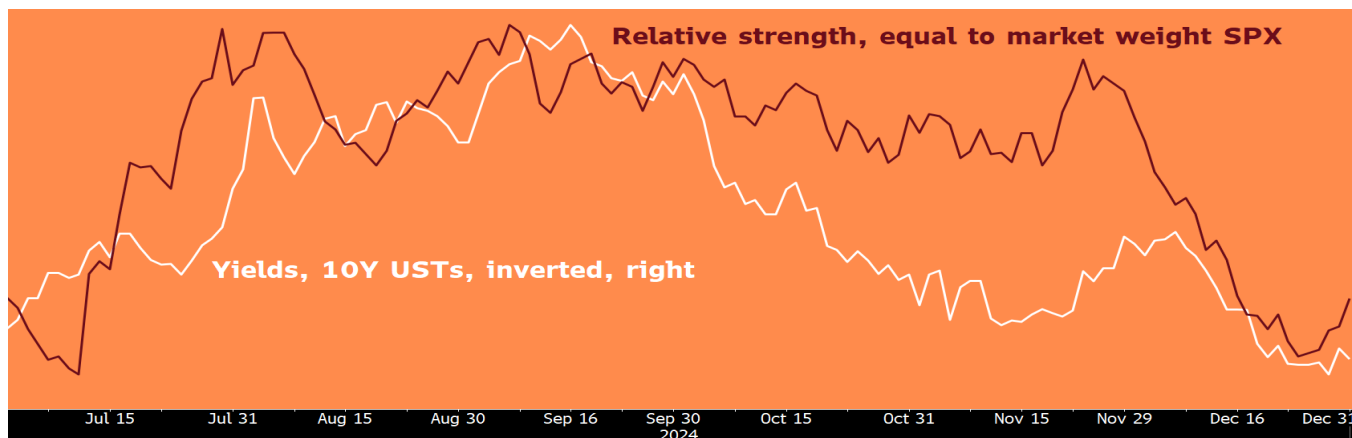


Source: Bloomberg

Speaking of Canada, for sake of brevity, we haven't written about the Canadian economy but the more aggressive actions by the BoC and the loonie trading below US\$0.70 say it all. With debt to personal income levels that are almost 2X the average level in the U.S. (yes, biased by the top 10%!), suffice it to say the Canadian economy will perform as a weak proxy of the U.S. economy. Hence, putting the economic picture together, the U.S. will once again lead the global pack, and given its heft, ensure the global economy delivers acceptable albeit unspectacular growth during 2025. Inflation likely stays higher than desired but once again is okay. We foresee additional normalization of yield curves, though the path is likely to differ from what markets believed the route would look like 6+ months ago due to fewer rate cuts at the short end and long rates that drift higher over time. Earnings growth should be decent but as discussed, stocks are no longer cheap, plus historically it's important to note that the majority of good years in stocks arise from multiple expansion not earnings growth, and during the past two years we've seen multiples expand by more than 50%.

For the fourth time in the past five years, we expect stocks to outperform bonds and cash yet foresee only high single digit returns for the SPX. We prefer mid-cap to both small and large cap stocks, but also see additional gains from holdings in AI-related companies. We believe the markets' near-term emphasis on extension of the 2017 tax cuts and the pending deregulatory efforts by Washington will combine with still ample liquidity to enable stocks to be on a good footing during the early months of 2025. With respect to liquidity, near term the debt ceiling issue in the U.S. will force a rundown in the Treasury General Account (TGA) which will boost liquidity. Also, anticipation that the Fed will end QT by mid-year but continue to use proceeds from maturing MBS to buy Treasuries should boost both liquidity and spirits. However, as '25 matures, liquidity conditions are expected to weaken, with an even more pronounced deterioration in '26 contributing to our belief of rising term premiums for U.S. long bonds.

The above scenario assumes Trump moves forward with his plans on tax cuts and deregulation, two positives for the market, plus immigration and tariffs, two negatives for the markets. We do not believe the Department of Government Efficiency (DOGE), led by Musk and Ramaswamy can cut US\$2T from U.S. Federal spending without Trump reneging on his pledge to not cut entitlements. Our hunch on tariffs is that 2025 will be a repeat of 2016-2017 when Trump talked tough but in the end only punished China. On immigration we note net migration to the U.S. has already declined from 3M in 2023 to a recent annualized rate of 1.75M. However, between the specific needs of the Technology sector for H1-B applicants and the needs of general industry for low wage, unskilled labour, we suspect trade and immigration will be less problematic than expected, and further, reduce the potential inflationary side effects of some of Trump's policy options.



Source: Bloomberg

If this scenario plays out, we believe the USD would fall, the potential short-term trade in Treasuries could last a little longer, the Fed would cut rates sooner, and equity rotation would boost our preferred mid-cap sector of the market. This rotation is illustrated in the above graph that compares the yield on a U.S. 10-year bond (white line, right axis, inverted) against the relative strength performance of the equal-weight to market-weight measure of the SPX. In addition, we suspect a falling USD would boost sentiment towards China facilitating (only) a trading rally in commodities, as markets would still face valuation challenges and the debt hangover of higher long rates and a deficit that comfortably exceeds 100% of GDP.

The overriding takeaway is that while markets are entering 2025 on a wave of enthusiasm, valuations, Trump, the outlook for long bonds and other variables gives pause to any investor who has lived through a few cycles, as only life itself is more humbling than markets. Consequently, the utility of hedge funds managed by professionals that stick to a discipline which includes the consistent use of significant market hedges via short positions and listed options during a year likely featuring higher volatility has never been greater. We believe the track record of the team at Forge First speaks for itself.

Thank you for your business and may 2025 be a healthy, happy, and successful year for you and your loved ones.

Andrew McCreath
CEO

Keenan Murray
CIO, Portfolio Manager

Richard Roth
Associate Portfolio Manager