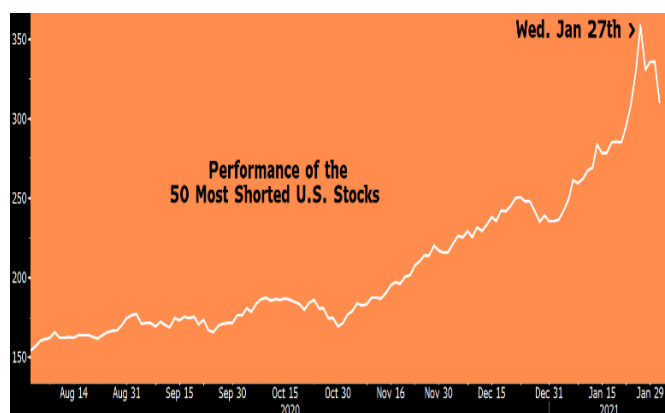
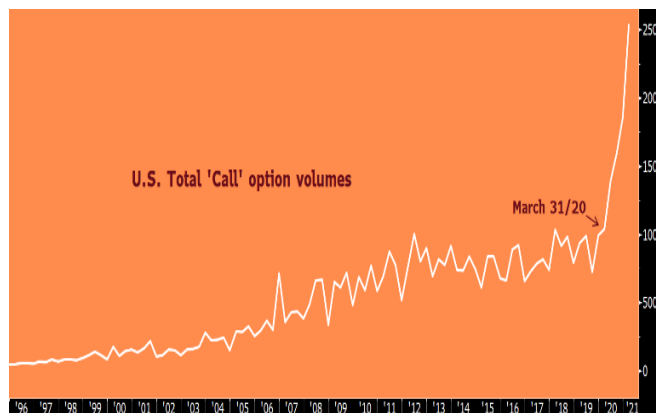


January 2021 Commentary

Last month's 2021 Market Lookahead commentary ([December Commentary](#)) included the text, 'we continue to be of the view that the near-term setup for stocks remains good given the 'market nirvana' combination of open-ended stimulus and the pending recovery in earnings. While we expect cyclical and value-oriented stocks to outperform 'high growth, momentum' stocks during the next several months, neither do we foresee interest rates climbing enough to cause a stampede away from these heavily weighted securities.' Our message today remains the same.



Source: Bloomberg



Source: Bloomberg

However, an apparently concerted effort to 'bear raid' short sellers of a selection of the most shorted stocks in the U.S. catalyzed market turmoil during the last three trading days of the month, interrupting this constructive setup. As shown in the top right corner of the six-month performance graph of a basket of the most shorted U.S. stocks on the above left, since the culmination of the spike on Wed. Jan 27th, the 1st of those three days, Reddit-related 'noise' has continued to fade. Yet, such speculative behaviour corroborates criticism that the Fed's ridiculously easy money policies continue to catalyze various pockets of excess. For example, the 25-year graph on the above right indicates that total purchases of U.S. listed call options has gone parabolic since equities bottomed during late March 2020.

We agree with Jeremy Grantham that "investors are relying on accommodative monetary conditions and zero real rates extrapolated indefinitely". With all due respect to the esteemed Mr. Grantham, one of the golden rules of managing client capital is to be pragmatic, not dogmatic. Another wave of U.S. fiscal stimulus is on the horizon, Fed speakers have been tripping over themselves to rein in mid-January chatter about QT, and Q4 earnings reports have been great. Hence for now, each of our two funds maintains bullish equity positioning while sticking to our discipline of always including a short book and basket of listed option positions. We expect stocks to move higher over the near-term.

For the month of January, the Multi Strategy LP saw its Class F Lead Series gain +1.43% net of fees, boosting its 3-year compound annual net return to +10.65%. The Sharpe ratio of this multi-asset portfolio sits at 1.62X while this fund sports a negative downside capture ratio of -15%. Gross and net exposure closed the month at 129% and 65%. This net exposure was split between a 44% net long position in the equity or capital growth sleeve, a 20% net exposure to credit and preferreds which combined with a 7% holding in SPACs to generate a 27% net long position in the alternatives sleeve, and a -6% net position in listed options, the asset protection sleeve of the Multi Strategy fund.

Each of these three sleeves made a positive contribution to the performance of the fund during January. The capital growth bucket, including negative impacts from associated single-name equity option hedges, and the alternative strategies sleeve drove performance, while the asset protection sleeve generated meaningful profits at the end of the month.

During January 2021, the fund increased the size of its allocation to the asset protection sleeve of the portfolio. This tactic was achieved via the inclusion of a variety of short-dated option strategies that provided exposure to rising volatility and hedges against weaker equity markets. Exiting the month, the fund modestly reduced this incremental exposure. Within the alternatives sleeve, the allocation to SPACs was trimmed, as we believe the substantial recent rise in new issuance will serve to broadly reduce go-forward returns. However, the fund will look to increase its exposure to SPACs when favourable

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opportunities are uncovered. Putting it all together, the net exposure of the fund exited January higher than the end of the previous month, largely due to an end of month increase in exposure to several high conviction positions amidst broad market weakness.

The Long Short Class F Lead Series advanced +0.53% net of fees, pushing its 3-year compound annual net return to +12.37%. The Sharpe ratio for this long short equity fund is 1.70X and while this fund also features a negative downside capture ratio, its upside capture is a solid +78%. Positive performance was captured from holdings in the consumer and utility sectors, while the materials sector was the largest detractor from performance. At month end, the gross and net exposures of the Long Short fund were 141% and 55% respectively compared to 129% and 57% at year end. Consumer and technology stocks hold the highest net exposures, followed by shares in the energy and materials sectors.

	YTD	1 mo	3 mo	6 mo	1 year	----- Annualized -----		
						3 year	5 year	Inception
Forge First Long Short LP (Class F Lead Series)	0.53%	0.53%	12.20%	14.47%	19.90%	12.37%	9.63%	15.66%
Forge First Multi Strategy LP (Class F Lead Series)	1.43%	1.43%	12.33%	17.62%	21.94%	10.65%	7.67%	12.05%
TSX Total Return	-0.32%	-0.32%	12.11%	8.88%	3.46%	6.12%	9.51%	8.01%
S&P 500 Total Return (US\$)	-1.01%	-1.01%	14.05%	14.47%	17.25%	11.70%	16.16%	14.69%

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.

We'd be remiss to not address the GameStop Corp. (GME.US) fiasco that impacted investors as markets closed the month of January. To begin, we would note the following text from the U.S. Securities Exchange Act of 1934. This excerpt appears to explicitly ban the coordinated activity that is believed to have driven the much-hyped short squeeze:

"The act likewise makes it unlawful to effect either alone or in concert with others a series of transactions in any registered security, creating actual or apparent active trading in the security or raising or depressing the price thereof, for the purpose of inducing the purchase or sale of the security by others. This provision should perform the wholesome service of outlawing pool operations."

While it's doubtful that any of the alleged perpetrators would ever be pursued for their actions, we hope this incident will catalyze regulators to ponder the logic of a few items:

- What is the purpose of allowing a single share of stock to be shorted an unlimited number of times, enabling the short position in a stock to exceed its float?
- Should brokerage firms be allowed to finance zero cost trading platforms through the sale of client trading information to high frequency trading firms that include Citadel Securities, who in turn use this information to benefit their proprietary trading at the expense of those same retail clients?
- Naked short selling is prohibited in the U.S. though arguably those rules are not vigorously enforced, while here at home no such hard rules exist, and
- Why do short positions have to be disclosed on a quarterly basis versus a long position that only needs to be disclosed if it represents greater than 5% of a company's shares?

Stepping down from our pulpit, a discussion of how those few days of trading impacted our funds is merited. Our investment management team adheres to a formal set of rules. This recipe includes not participating on the short side of equities characterized as 'crowded shorts'. As a result, the 'bear raid' against a collection of heavily shorted stocks had zero direct impact on either of our funds. However, as has now been widely reported, various investment dealers which house large prime broker operations have stated that those few days exhibited the "largest de-grossing days ever" for hedge funds.

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In other words, as hedge funds were being taken to the wood shed on short positions and being forced to cover these positions, these funds also had to sell long positions so as to meet margin requirements. Given the strangely negative price behaviour we noticed in several of our U.S. holdings during this time frame, we'd suggest this 2nd derivative effect, partially offset by our index hedges, generated losses in our portfolio going into month end.

A more pronounced impact on our performance was attributable to the end of month rotation from cyclical and value-oriented securities back towards growth. This shift impacted our Long Short LP more than our Multi Strategy LP, as our Long Short LP holds a greater cyclical bias in its equity holdings relative to Multi Strategy. Catalysts for this latest factor rotation included concern that the final amount of Biden's fiscal package would end up being less than his US\$1.9T ask and COVID, including the expectation that the EU will be locked down through the end of February. As a result, inside the white oval on the right side of the 1st graph below, please note yields on UST10s (red line) declined from 1.12% at the start of the 'bear raid' to touch 1.0% a week ago before climbing back to 1.12% at the time of writing. Meanwhile, the improvement in the relative strength of growth versus value (falling white line in same graph) has been fueled more recently by the blowout earnings results from macro cap tech stocks than a more broadly based trend. The post-reporting price performance of companies including Microsoft Corp (MSFT.US) and Alphabet Inc. (GOOG.US), both long time holdings in our funds, validates this view. It also explains why the 2nd graph below illustrates that the market weighted S&P 500 has recently been outperforming the equal weighted S&P 500.



Source: Bloomberg

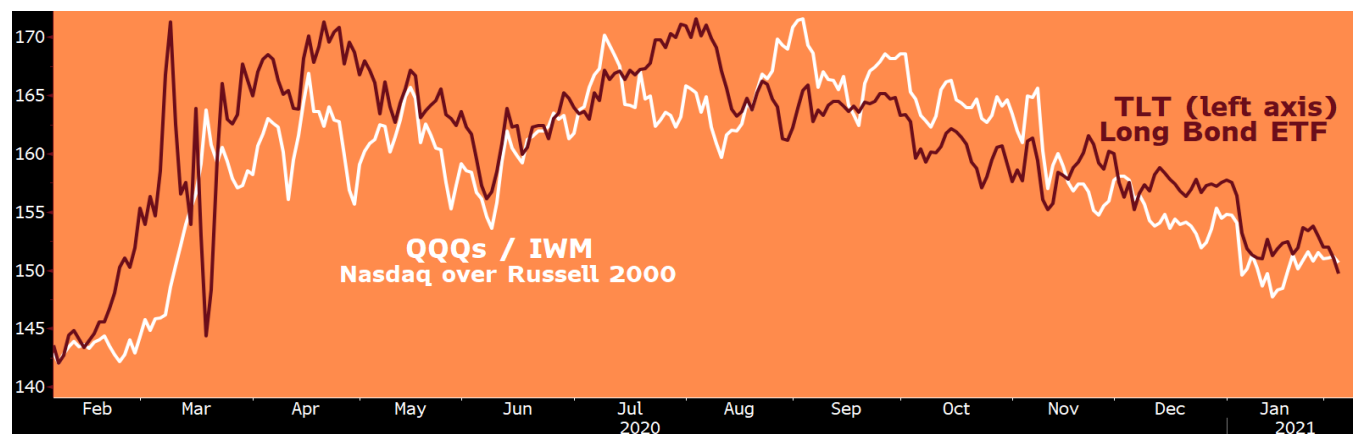


Source: Bloomberg

Looking at the importance of rates to what's working in stocks from a different angle, the graph directly below compares the relative strength of the Invesco QQQ Trust Series 1 ETF ("QQQ ETF") to the iShares Russell 2000 ETF ("IWM ETF") against the price of the iShares 20+ Year Treasury Bond ETF ("TLT ETF"). Broadly speaking, the Qs, an ETF that tracks the Nasdaq 100, represent growth with a heavy weighting to large cap tech stocks. In contrast, the IWM ETF which tracks the small and mid-cap stocks of the Russell 2000, is more evenly split between financials, industrials, materials and

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technology stocks that exhibit a more cyclical bias. As for the TLT ETF, it is the price of a basket of long-term U.S. government bonds. So as to be expected, as interest rates rise and the price of the TLT ETF falls, the more cyclical IWM ETF outperforms the triple Qs. In other words, with the S&P 500 trading at 21.9X and 19.5X 2021 and 2022 EPS estimates of \$175 and \$196 (before Biden's tax hikes), the stance of the Fed and the level of interest rates becomes of increasing importance.



Source: Bloomberg

Our 2021 Outlook commentary discussed at length why we don't foresee a significant rise in interest rates during the next several months. Put simply, while we will witness a transient spike in consumer inflation this Spring, given the easy year-over-year comparisons with the early days of COVID, the economic output gap remains too wide for most corporations to pass through the rising input costs (PPI) they're facing throughout their supply chains. In addition, any changes by the Fed this year are more likely to include an extension of their existing QE program in duration, size and timing. The only caveat to an extension by the Fed is if Biden's upcoming stimulus package(s) accelerate the H2 2021 growth rate of the economy such that markets start to discount a change in stance by the Fed far sooner than is currently priced in. Aside from COVID and vaccines, that's the biggest, foreseeable risk to equity prices. In the meantime, recent commentary from the ECB increases the odds that U.S. rates stay low, hence supportive for stocks.

Various ECB speakers have stated that the focus of Europe's Central Bank has shifted from managing the absolute level of yields to the spreads between the strongest and weakest economies of the EU. One example of this new goal is locking down the differential between Italian and German yields. This policy adjustment explains why yields on German Bunds remained stable while U.S. yields were recently rising. In turn, any time U.S. yields rise, they become a magnet for yield-starved European investors, even on a currency-hedged basis. This new information affirms our rationale for why we believe interest rates will stay 'lower for longer'.



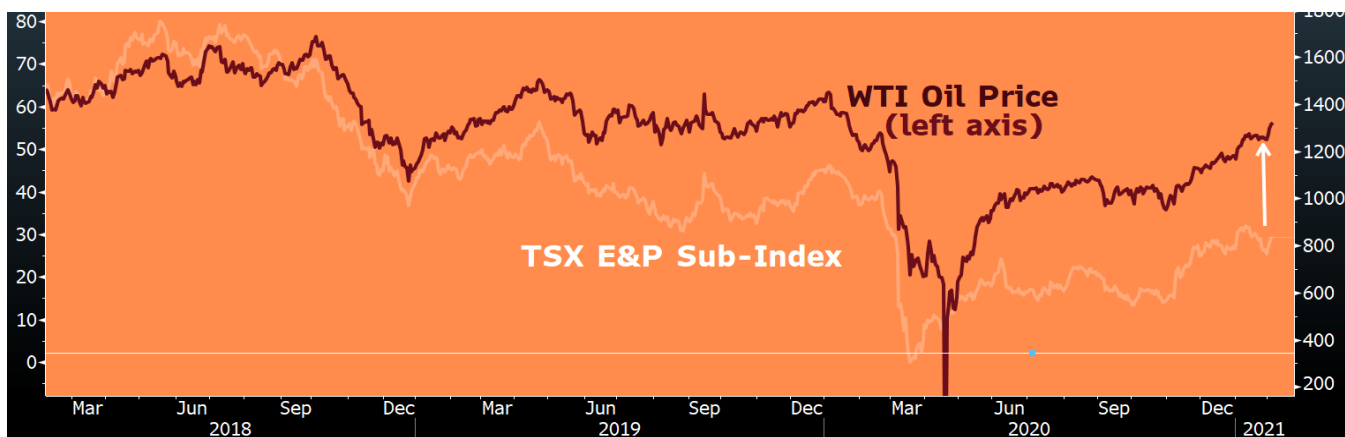
Source: Bloomberg

With GameStop in the rear-view mirror, as you can see from the 10-day, intra-day graph above of GameStop in red on the left axis against the VIX Index in white, the two have deflated together, leaving volatility back to pre-mania levels, and in our opinion, with further to fall. While there's little doubt that at a minimum the new variants of the COVID virus are likely to prolong society's struggle with the pandemic, recent commentary from the management of Moderna, Inc. (MRNA.US) was received positively by markets. Management at this vaccine pioneer expressed a high degree of optimism that its messenger RNA technology can be adapted for new variants. Consequently, with the vaccination count rising in the U.S., Europe and the U.K., we continue to expect the 'opening up' trade to continue to perform well. Likewise, as markets discount that 'opening up', volatility will continue to fall, triggering more inflows into stocks.

In our view, two sectors that offer a rich opportunity set of investing options around the 'opening up' trade are the consumer and energy verticals. On the consumer side, companies such as US Foods Holding Corp. (USFD.US), a catering company, and Las Vegas Sands Corp. (LVS.US), the casino company, offer significant upside potential. In addition to owning shares in LVS, we recently added a 'cost-less risk reversal' options trade. This tactic allowed us to sell long-dated puts and buy long-dated calls, of similar duration and equally out-of-the money strikes, for zero cost. As 'herd immunity' arrives in America, we believe the market will discount the expectation that Americans will get in their cars and drive to Las Vegas. If we're wrong, we're very happy to own more shares at the valuation implied by the strike price of the puts.



Source: Bloomberg



Source: Bloomberg

Summer driving also implies rising gasoline demand. Now up 16% year-to-date and 43% during the past three months, the 1st graph above illustrates that the price of WTI oil has moved into backwardation, meaning oil to be delivered today is more expensive than the price of that same barrel nine months in the future. This shift from last year's contango suggests the market is tightening as demand is recovering faster than expected. Amidst this bullish scenario, sidelined barrels that could be brought back on to the market loom large. Nevertheless, the oil market is messaging that supply is not going to be able to keep up with demand. We'd argue that backwardation is what OPEC is trying to create, as it discourages hedging,

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making it tougher for a company to finance production growth. In the current environment, the far side of the 2nd graph above suggests energy stocks have some catching up to do relative to the price of oil. Our funds own shares in Canadian Natural Resources Ltd. (CNQ.CA), Parex Resources Inc. (PXT.CA), Storm Resources Ltd. (SRX.CA), Seven Generations Energy Ltd. (VII.CA), and Tourmaline Oil Corp. (TOU.CA), the latter two companies being big beneficiaries of rising condensate prices.

Notwithstanding our constructive stance towards markets and enthusiasm towards our high convictions investment ideas, as always the position-sizing within our funds remains pragmatic and our portfolios feature a healthy helping of right-sized short positions and listed put options. While this note has reiterated our rationale for markets to grind higher, beyond the near-term, we expect corporate earnings will keep rising, but valuations to contract. Such a scenario implies rising dispersion amongst the price performance of equities, a situation ripe for active managers of liquid portfolios.

Thank you for the 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.

Finally, one last closing note. Post a long hiatus due to COVID, we're pleased to inform you that Andrew has returned to BNN Bloomberg TV for a final 15-minute wrap-up of the trading day, daily at 3:45 pm ET.

Thank you,

Andrew McCreath
President and CEO

Daniel Lloyd
Portfolio Manager

Keenan Murray
Portfolio Manager

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