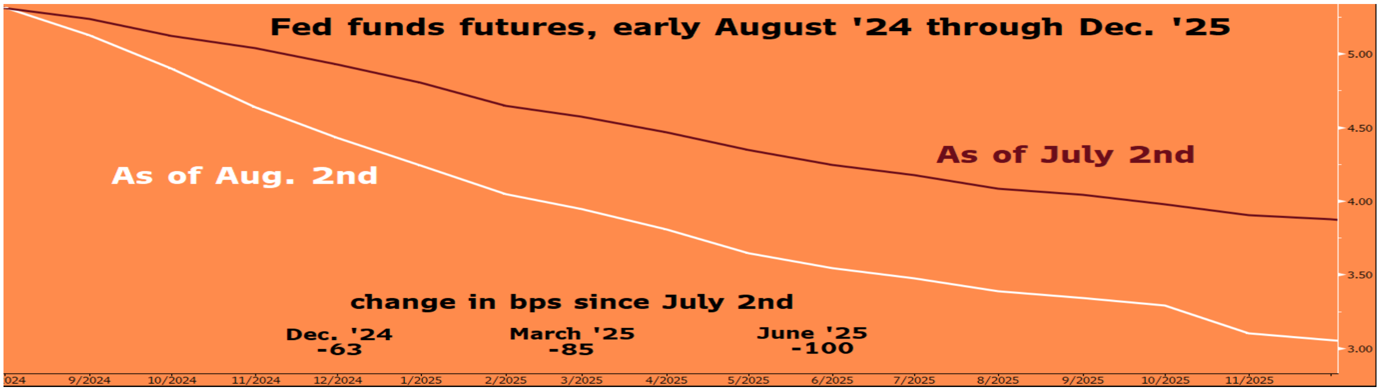
FORGEFIRST
ASSET MANAGEMENT INC

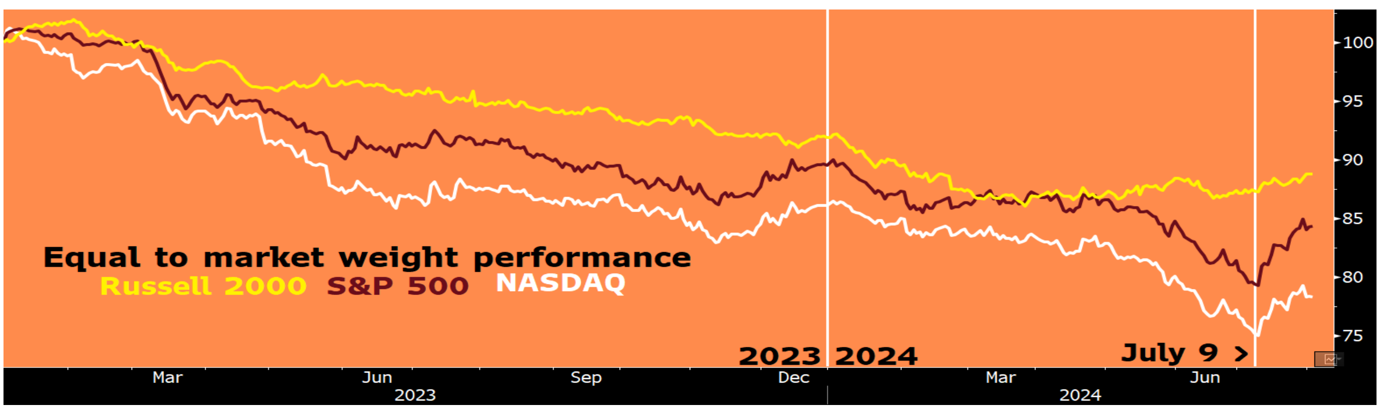
August 9, 2024

July 2024 Commentary

Interest rates have fallen off a cliff since hitting their recent peak on July 1st, with the yields on U.S. 2s and 10s falling 90 and 70 basis points respectively through last Friday's close. Weaker growth, softer pricing data and rate-cutting supportive Fed-speak kickstarted the bond rally from which stocks took their cue. Then June's U.S. CPI print hit on July 11th, triggering a greater than five standard deviation move in the relative strength of the Russell 2000 (small cap index) versus the NASDAQ 100, the largest de-rating since the bursting of the tech bubble in 2000. Hence, the S&P 500 gave back most of its month-to-date gains, finishing with a total return of 1.2%, while the Russell returned +10.2% and Canada's S&P TSX split the difference, tabling a total return of 5.9%. Likewise, each of our two funds once again generated positive net returns.



Source: Bloomberg



Source: Bloomberg

With the M7's 12.3% intra-month drawdown (18% through August 5th), it is little surprise the graph above indicates that equal weighted indices materially outperformed the market weighted index of the Russell (yellow line), but especially the S&P 500 (red line) and NASDAQ (white line).

Post the inflation data, when the above shift gathered steam, our Multi Strategy LP pivoted from being short the Russell 2000 to tactically owning this small cap index only to reverse again and exit the month short the Russell, based on our belief that small cap companies continue to face a very tough fundamental outlook. This pivot was one of the contributors to the positive performance of the fund during July. The Class F Lead Series of the Multi Strategy LP gained +4.08% net of fees, boosting its year-to-date and rolling 12-month net returns to +13.91% and +19.79% respectively.

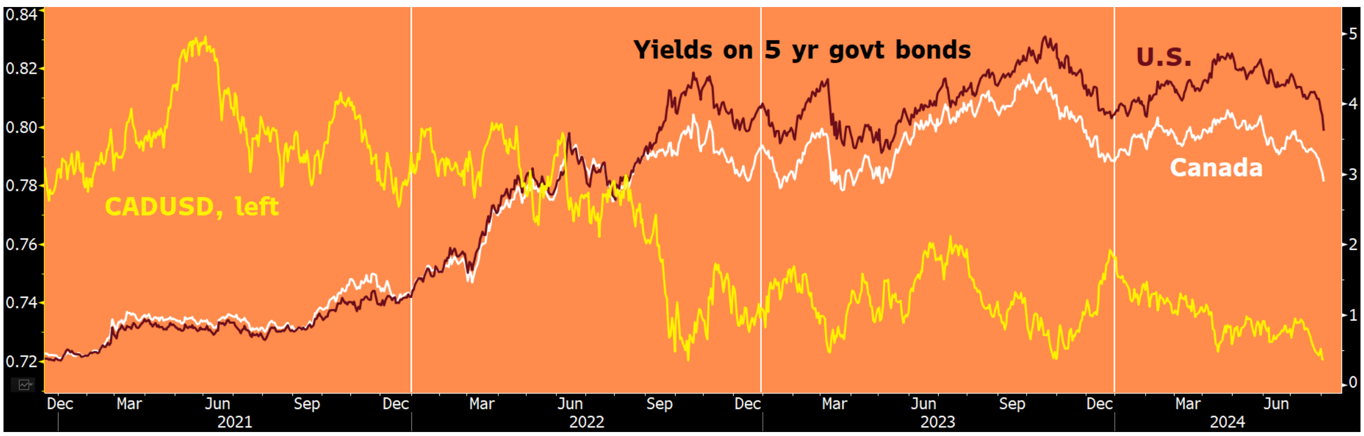
All three sleeves of the portfolio contributed to the positive performance during the month. For example, as discussed in recent commentaries, the fund had been increasing its exposure to the 'belly" of the IG curve in Canada based on our expectation the Bank of Canada would cut rates before, and more frequently, than the Fed. As this belief has played out, the credit sleeve within the Financials sector of this fund performed strongly during July. Equities within the Financials sector also generated profits during the month, as did the largest equity position in the fund, the rate sensitive Hydro One Ltd (H.CA) in Utilities.

Other sectors delivering solid performance included Industrials, Consumer Cyclicals and Technology. For example, in Technology we had shorted Advanced Micro Devices Inc. (AMD.US) on our belief, later confirmed, the company was experiencing performance issues arising from overheating within its HBM (high bandwidth memory) portfolio. Shorting AMD (in both the funds) was also one of the tactics used to reduce beta and net exposure to the Tech sector early last month when it was our view that equity pricing in the Tech sector, AI specifically, had become too frothy. The fund exited July with delta-adjusted gross and net exposure of +268% and 61% respectively, with the net split between common equities (+32%) and multi-assets (+29%).

As of July 31, 2024	YTD	1-mo	3-mo	6-mo	1-year	3-year	5-year	10-year	Inception
					--Annualized--				
Forge First Long Short LP (Class F Lead Series)	10.09%	1.43%	5.61%	8.48%	17.62%	4.76%	10.59%	9.20%	13.32%
Forge First Multi Strategy LP (Class F Lead Series)	13.91%	4.08%	7.76%	12.55%	19.79%	7.08%	10.69%	8.14%	11.08%
S&P/TSX Composite Total Return Index	12.28%	5.87%	7.26%	11.67%	15.73%	7.72%	10.46%	7.41%	9.13%
S&P 500 Total Return Index (C$)	22.01%	2.20%	10.47%	18.32%	28.11%	13.37%	16.13%	15.87%	17.50%

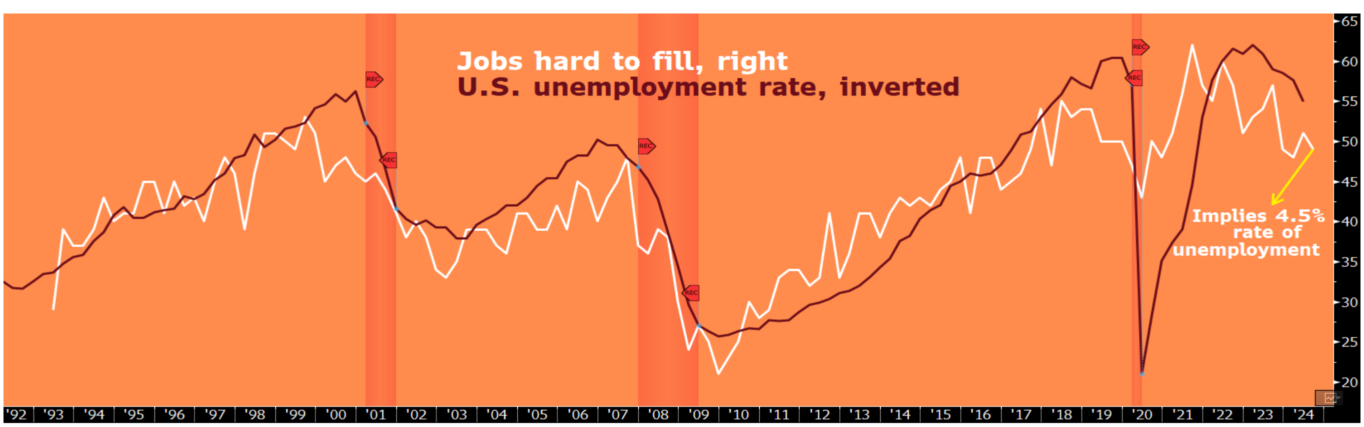
Note: Returns for the Forge First funds are based on the August 2012 Class F Lead Series and are net of all fees and expenses. In a year, up to 12 series can be created within a Class of units. Unitholders are advised to refer to their monthly statement for the net return of their respective Class and Series. All returns are in local currencies.

The Class F Lead Series of our Long Short LP gained +1.43% for the month, increasing its year-to-date and trailing 12-month net return to +10.09% and +17.62% respectively. Positions in the Financial, Real Estate, and the Utilities sectors led the way during July with honourable mentions going to Technology, Energy, Consumer Cyclical, and Industrials. Hedges were the source of the majority of the losses experienced in the fund during the month.



Source: Bloomberg

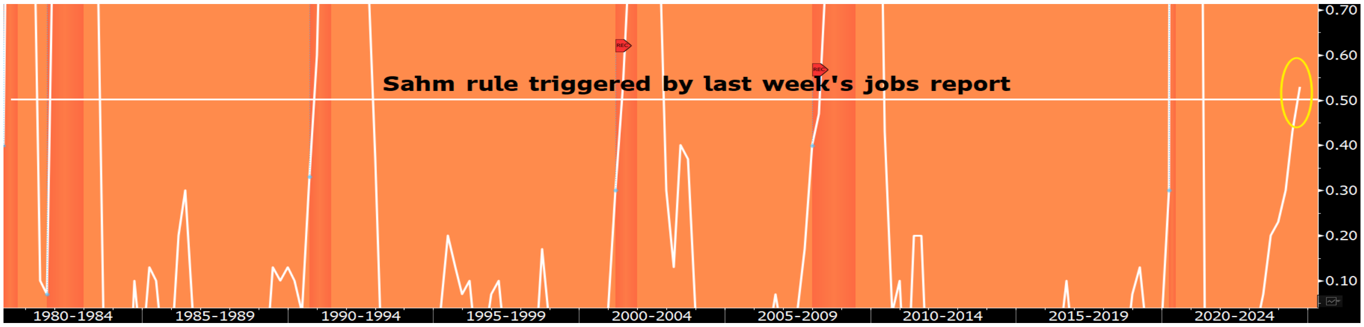
As shown in the above graph, Canadian 5-year bond yields have moved in lock step lower with the decline in the yields of USTs, touching 3% last Friday. This low yield increases the attractiveness of our positions in the Utilities sector, such as Boralex Inc. (BLX.CA) and Real Estate. For example, even though we believe the Canadian economy is in a tougher spot than the U.S. economy, we find the risk versus reward of the implied 7% offered by certain REITs to be attractive. Finally, the fund began to increase its Tech exposure off the 3%-4% net exposure floor of mid-July, adding shares to existing holdings in Meta Platforms Inc. (META.US) and Alphabet Inc. (GOOG.US). While in retrospect having started to rebuild a tad too early, we are very comfortable with the fundamental outlook for these cash machines. The fund exited July with delta-adjusted gross and net exposure of 166% and 49% respectively.



Source: Bloomberg

From our lens, given consumer company results and guidance, continuing claims and surveys including the recent ISMs, there's little question the pace of U.S. economic growth is slowing. Yet, given the resilience we note in some sectors (certain Industrial verticals and

AI-based tech to name two) and a jobs market which is visibly softening (graph above) but still healthy enough (notwithstanding the Sahm Rule shown below), it is unlikely a recession will begin during H2 of 2024. However, we do believe the U.S. economy has entered a period of modestly negative to low growth for the next 18 months, a slowdown the Canadian economy is unlikely to avoid.



Source: Bloomberg

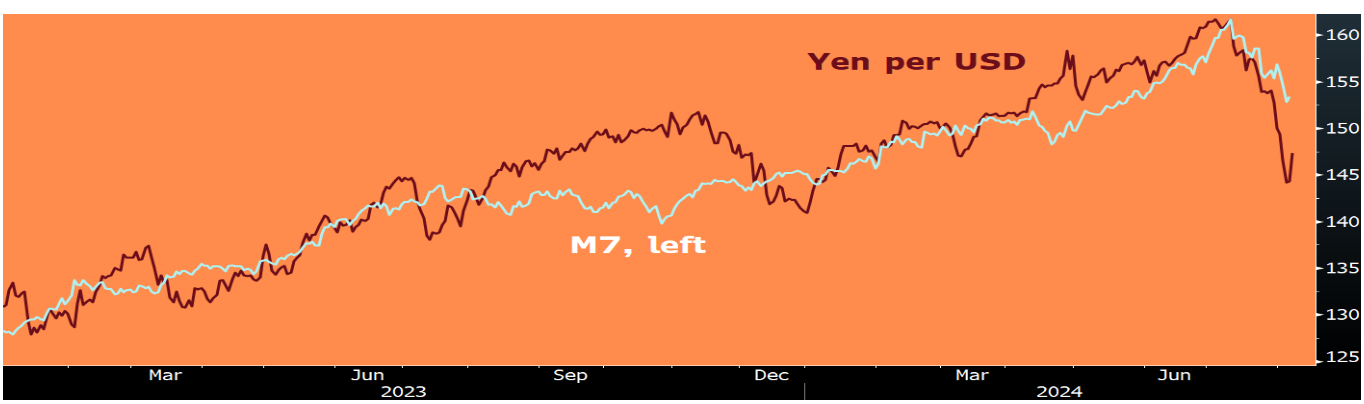
In addition to the impact of security selection and exposure levels of a slowing economy, it's imperative to take into consideration how the recent re-pricing of various asset classes impacts the outlook for risk versus reward. Pundits have blamed: a) weak U.S. economic data, b) the collapse of the Yen carry trade, c) heightened geopolitical risks, and d) concerns the near-term revenue opportunity in AI isn't what it was talked up to be, as catalysts for the recent downdraft in stocks. While it is likely all variables played a role, we would downplay the point on geopolitical risk and attribute the re-pricing to the other three variables.

We suspect U.S. jobs will have bounced back to a reasonable level when we receive the August jobs data on September 6th. While we are not economists, it is our sense that Hurricane Beryl impacted hours worked and, to a degree, job counts. If we're correct, we'd expect UST 10-year bond yields to move back to or above 4%. As for the outlook for AI-driven revenues, in the very near term there's no question the revenue reality has turned out to be different from the hype. However, these 'hyper scalers' as Microsoft, Meta, etc. are called, generate so much cash that even the announced near-term increase in AI-based capital spending doesn't make a dent in the outlook for their balance sheet or other financials. We have no doubt highly accretive revenues will be forthcoming. As a result, it strikes us that the end of the Yen-based carry trade has been the bigger issue for markets.

Japanese interest rates have essentially been 0% for more than 20 years. Hence, financing the purchase of pretty much any non-Japanese asset with a FX-hedged short position has been a profitable trade for many years. Then the Bank of Japan finally started to hike rates, partly due to the fact inflation had finally raised itself off the mat and possibly partially as a ploy to increase the value of its currency to fend off the potential tariff wars the former President Trump could introduce if he returned to the White House.

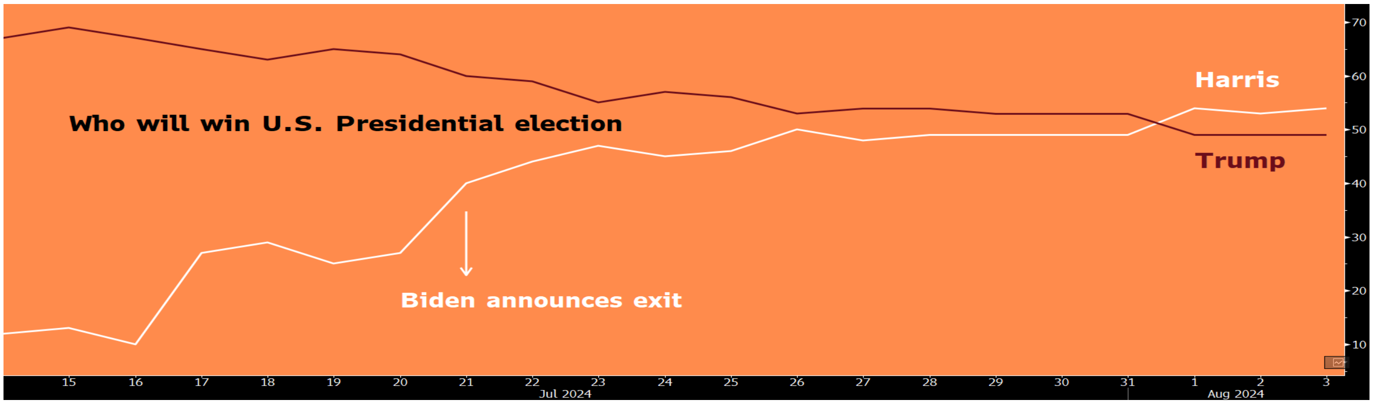
Last week when U.S. bond yields plummeted and markets priced in >100 bps of rate cuts by the Fed this year, we found it surprising that gold took it on the chin. If the deficit-ridden U.S. was going to see its Central Bank materially loosen monetary policy again, one might think gold would go up not down. Of course, gold, similar to Japanese bonds for the past 20 years, offered no yield. Hence there was no cost to own gold and perhaps when Japanese rates changed, so did the appetite to own gold. Similarly, we know how crowded a trade U.S. macro cap tech has been during the last couple of years. The next graph highlights the strong correlation between the Yen and the M7. Therefore, we believe the unwind of the carry trade has played an important role in causing the repricing of equities. Unfortunately, no one has a clear idea of how much capital is tied up in carry trades. Earlier this week J.P. Morgan estimated that perhaps 50% of the dollar value of carry trades had been unwound.

If we are correct and jobs bounce back, although not in a big way since the jobs market is slowing, we suspect the Fed will throw cold water on the market's expectation of 4+ rate cuts this year. Yet in 2025 we foresee multiple rate cuts by the Fed and the BoC. Hence, better than feared jobs data, ongoing lower demand for assets from the lingering impact of the decline of the carry trade, and a Fed that will not acquiesce to the whims of the markets, should cause yields to back up and equities to post a reasonable recovery. However, we expect small cap and cyclical stocks to underperform while GARP and M7 stocks perform reasonably well.



Source: Bloomberg

As a result, our funds will continue to increase exposure to equities characterized as defensive and/or quality GARP, selectively short cyclically oriented securities, and remain focused on increasing exposure to companies poised to benefit from rate cuts during 2025, be they common equities (in both funds) or credit instruments in the 'belly' of the curve (in the Multi Strategy LP). We will be judicious in the timing of these increases in net long exposure.



Source: Bloomberg

Then there's the U.S. election! In the 'just saying' category, if Harris gets elected, we suspect her tax policies (among other files) will differ markedly from Trump's! We will watch and wait.

Prior to closing, we are pleased to announce the promotion of Keenan Murray to Chief Investment Officer of Forge First. Keenan is in his tenth year at the firm and since joining, he has exhibited a relentless passion to perform and an aptitude to lead. Keenan has been the portfolio manager of our Multi Strategy LP since 2019 and the results have exceeded our expectations with a 5-year net CAGR of +10.69%, volatility of only 40% of the market and downside capture of -14%. I, Andrew McCreath, will continue to play an active role at the firm as co-founder and CEO.

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.

Andrew McCreath	Keenan Murray	Richard Roth
CEO	CIO, Portfolio Manager	Associate Portfolio Manager