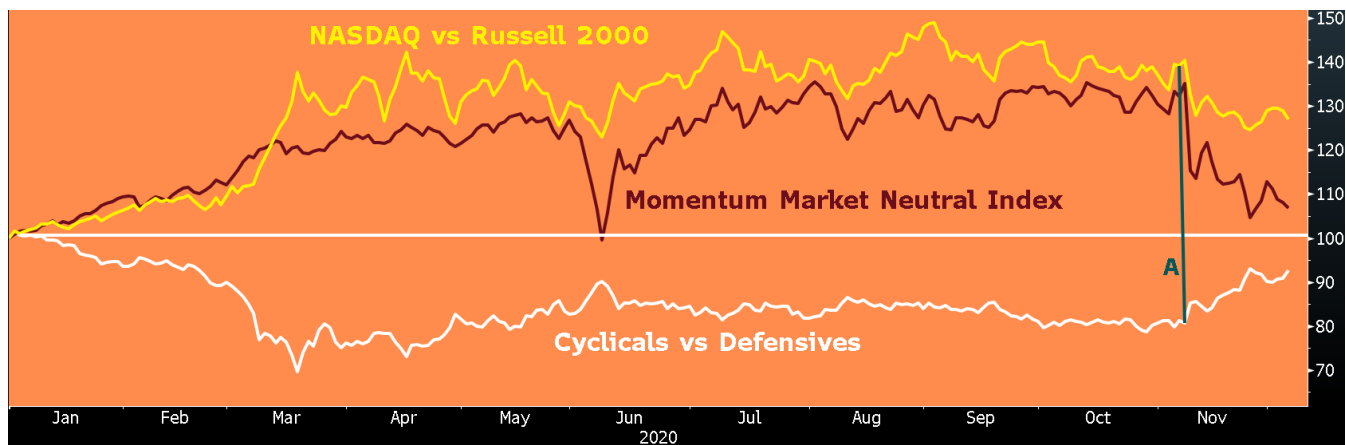


November 2020 Commentary

What a month November 2020 turned out to be! While point-to-point bond yields were flat, all 50 global equity indices tracked by S&P Global Markets showed gains, fueled by the market's transition from 'Merger Mondays' to 'Vaccine News Mondays'. Kicked off by Pfizer's (PFE.US) positive pre-opening news on Monday, November 9th, the month witnessed three consecutive Mondays with positive news on the vaccine front. These items served to strengthen hopes for an economic recovery and catalyze material factor rotation amongst stocks. Such optimism explains why value stocks, companies strongly linked to economic fundamentals, outperformed growth stocks by the largest margin on record on November 9th. In each of the next four graphs, the letter 'A' marks the morning that Pfizer's (PFE.US) news hit the tape, kick-starting several key trends within U.S. equities. In the first graph, note the dramatic rotations in favour of the Russell 2000, i.e., small cap stocks, from the NASDAQ index (yellow line) and towards cyclicals from defensive equities (white line).



Source: Bloomberg

Also, the shift in the Momentum Market Neutral Index (red line) indicates that the short basket within that index began to trounce the long basket. Below on the second graph, it's clear that 'high beta' stocks (white line) moved quickly from the bottom to the top of the class and while 'high quality stocks (red line) have continued to grind higher, equities pegged as having 'low volatility' (blue line), materially underperformed.



Source: Bloomberg

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Overall, the TSX generated a total return for the month of +10.57% pushing its year-to-date back in to the green, at +3.81%, as the heavyweight bank stocks delivered a +15% return. South of the border, the S&P 500 (SPX) yielded investors a +10.95% total return for the month, its best November since 1928, when it was up +11.99%, which was followed by the worst November on record in 1929, with a -13.37% decline. Market breadth for the SPX turned positive for the month, as 467 issues gained; 297 of them up at least +10%, and 38 saw declines, with 3 down more than -10%. Also, while often a warning sign, though likely more a sign of the markets' broad based move at this juncture, shares in 92% of the companies in the SPX are trading above their 200-day moving average.



Source: Bloomberg



Source: Bloomberg

I'm pleased to report that November 2020 marked a very strong month for each of the funds at Forge First. As can be seen in the table below, the Forge First Conservative Alternative Fund, Series 'F' gained +5.26% net for the month. This multi-asset portfolio, a solid alternative for the capital preservation bucket of an investment portfolio, is now up +13.37% year-to-date, 14.94% over the past 12 months, and has returned investors 15.28% since this alternative mutual was launched in late April of 2019.

At November 30th, the Conservative Alternative Fund had gross and net exposures of 121% and 56% respectively, with the net exposure split between the equity sleeve (+34.1%) and the yield-focused (+22.1%) sleeve. From previous month-end, net equity length declined modestly as certain positions were trimmed so as to maintain consistent weights in core positions. Returns were captured from each of the capital growth and alternative strategies sleeves, while the asset protection sleeve detracted from performance in the month as equity markets advanced higher.

	YTD	1 mo	3 mo	6 mo	1 year	Since Inception*
Forge First Long Short Alternative Fund Series A	11.66%	6.56%	5.19%	12.68%	15.16%	15.21%
Forge First Long Short Alternative Fund Series F	12.66%	6.65%	5.42%	13.18%	16.28%	16.92%
Forge First Conservative Alternative Fund Series A	12.46%	5.17%	6.48%	12.05%	13.93%	13.63%
Forge First Conservative Alternative Fund Series F	13.37%	5.26%	6.74%	12.58%	14.94%	15.28%
TSX Total Return	3.81%	10.57%	4.92%	14.96%	4.28%	8.63%
S&P 500 Total Return (US\$)	14.02%	10.95%	3.89%	19.98%	17.46%	27.32%

*Inception: April 24, 2019

The Long Short Alternative Fund, Series 'F' advanced +6.65% net of fees for the month, boosting its year-to-date net return to +12.66%. Over the past 12 months, the Series 'F' has generated a 16.28% return for investors, while since this alternative mutual was launched in late April of 2019 the net return has been 16.92%. The gross and net exposure as of November 30th was 119% and 56% respectively.

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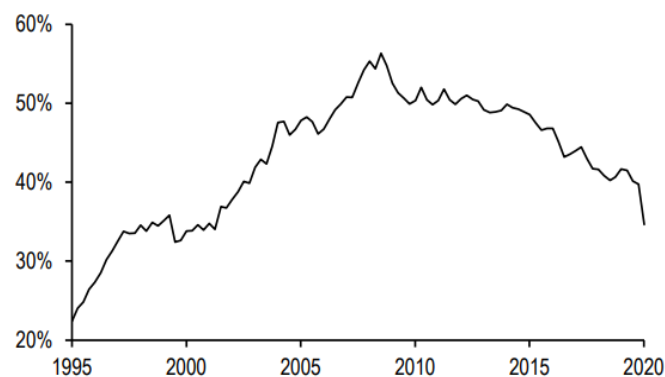
As discussed in past commentaries, our investment team has held the view that easy financial conditions would remain the principal determinant of near-term market direction. Hence, with the uncertainty of the U.S. election in the rear-view mirror and positive vaccine news on the tape, it was logical for stocks to zoom higher. Having said that, it's important to remember that notwithstanding this bullish belief, our investment team stuck to its discipline of maintaining each of a diversified short book and a host of listed put options in each of our portfolios. Consequently, from the perspective of attribution, it will come as no surprise that the only losing sector in the month was our book of ETF shorts plus the put option positions we hold on individual stocks and equity indices.

Shifting to the winning side of the ledger, our largest contributors fell into one of two categories: "opening up" stocks such as Molson Coors (TAP.US) and Air Canada (AC.CA), plus "cyclicals" including Freeport McMoran (FCX.US), Interfor Corp. (IFP.CA) and Canadian Natural Resources (CNQ.CA). On energy, we believe the impact of years of underinvestment have been punctuated by a record drop in global energy capital expenditures in 2020 of greater than 60%. The presence of a highly effective vaccine should yield an expedient rebound in product demand, specifically gasoline and jet fuel, at exactly the time when a timely supply response is not possible. Hence, we forecast materially higher oil prices in the 2021-2023 time frame and foresee a rich opportunity set within this sector from which to make money for our investors. Notwithstanding this bullish medium-term view, ahead of OPEC's meeting last week, the investment team added a large hedge to our energy exposure, given the possibility that OPEC may have been unable to agree on quotas. Discretion is the better part of valor!

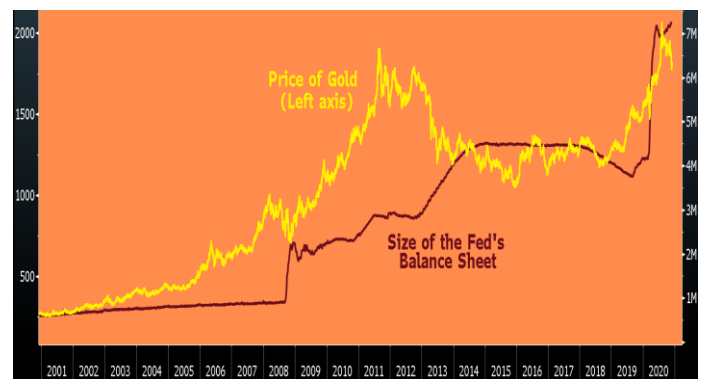
A 3rd contributor to our gains last month was the outcome of the U.S. election, seen specifically in the performance of long-held marijuana company Trulieve Cannabis (TRUL.CA). First, the expectation that President-elect Biden will move to reschedule cannabis, serving to make pot less illegal. Second, four additional states voted to legalize recreational cannabis such that during 2021, one in three Americans will live in a state where marijuana usage is legal for adults over 21 years. Finally, gold merits some attention.

Regular readers are aware that our funds have held a position in gold stocks since Q4 2018. Cognizant that vaccine news was on tap as the month of November began, and that good news would likely trigger a reduction in the degree of economic uncertainty priced in to stocks, we hedged the majority of our gold exposure towards the end of October. As a result, the 5.2% decline in bullion (to \$1,780) and related -12.3% haircut to gold stocks generated only minimal losses in the funds.

Foreign Ownership Share of U.S. Treasury Debt



Source: Federal Reserve



Source: Bloomberg

As we expect the 'opening up' trade to persist for the foreseeable future, we are maintaining our hedges on gold stocks. However, we're not reducing our holdings in Barrick Gold (ABX.CA) or Agnico Eagle Mines (AEM.CA) because ultimately, we believe the Federal Reserve will be forced to further increase the size of its balance sheet (red line in graph on above right) and extend the duration of its bond holdings for a very simple reason. As shown by the graph on the above left, the share of U.S. Treasury (UST) debt owned by foreign investors is the lowest it has been this century. We expect this trend to continue. Meanwhile, JP Morgan foresees a more than US\$1T increase in the net issuance from the UST during 2021.

Speaking of bond issuance, The Institute of International Finance estimates that global debt will have increased more than US\$20T during 2020 to reach US\$277T or 365% of global GDP. Unfortunately, noticing that the utility of this debt continues to fall, Gita Gopinath, Chief Economist of the IMF, has declared the world is in a liquidity trap.

Long espoused by Richard Koo of the Nomura Institute, a liquidity trap occurs when interest rates are so low that households and corporations hoard cash. When that happens, monetary stimulus ceases to have much impact on the price level. In turn, it's a key reason why the velocity of money will remain low and sustained inflation (outside of monopolies and duopolies) will be tough to generate. Each of these variables suggests interest and GDP growth (once normalized) rates are likely to remain low.

Next week, for the umpteenth time, the ECB is expected to attempt to kick-start the European economy. This go-around the ECB is expected to increase its Pandemic Emergency Purchase Program (PEPP) by an estimated 600B euros, following a year in which the value of bonds purchased by the ECB will have exceeded the net issuance of EU members. Meanwhile, Italy recently floated the idea that the ECB should write off at least part of the debt that Italy owes Europe's Central Bank. Needless to say that idea went nowhere, just like the EU economy that is expected to shrink in Q4, albeit because of COVID-19.

In fact, the only large nation whose economy is doing really well is China. Strong exports and recovering domestic demand have enabled China's economy to actually grow year-over-year! In fact, China's Central Bank, the PBOC, has recently taken action to neutralize monetary policy while lower-than-expected infrastructure spending implies fiscal stimulus has been less than expected. Many China watchers believe the credit cycle in China has peaked.

As discussed in our commentary from last month, if growth, inflation and interest rates are going to stay low, once this 'opening up', cyclically-biased trade has run its course, there's likely to be a tug of war between growth and value. That's because rates are unlikely to increase enough to cause investors to flee 'long duration' growth stocks. In addition, many of these 'macro cap' (largely) tech companies still have room to further penetrate their total addressable markets (TAMs), hence delivering on expected financial results.

At the same time, post the cyclical rally that we foresee continuing for at least the next few months, not all cyclically-driven equities will perform equally as well. Years of less-than-required spending on capital intensive commodities such as copper and oil bode well for unit pricing in those verticals over the medium term. But other cyclical industries that require growth and inflation to generate pricing power (including banks) are likely to stall out. So what does this mean for market averages?

FAAMG % Return

		-10%	-5%	0%	5%	10%	20%
Return of other 495 Stocks	-10%	3325	3375	3400	3450	3500	3575
		-10%	-9%	-8%	-7%	-5%	-3%
	0%	3625	3650	3700	3750	3775	3850
		-2%	-1%	0%	1%	2%	4%
	10%	3900	3950	4000	4025	4075	4150
		5%	7%	8%	9%	10%	12%
	20%	4200	4225	4275	4325	4350	4450
		14%	14%	16%	17%	18%	20%
	30%	4475	4525	4575	4600	4650	4725
		21%	22%	24%	24%	26%	28%

Source: Goldman Sachs

During late November, Goldman Sachs published the above scenario analysis. FAAMG stands for Facebook Inc. (FB.US), Apple Inc.(AAPL.US), Amazon.com Inc. (AMZN.US), Microsoft Corp. (MSFT.US) and Alphabet Inc. (GOOG.US). Pick your return for each of the FAAMG and the remaining 495 stocks in the SPX and voila, there's your 12-month target price! In determining your answer, take into consideration the constituents of the SPX as shown in the table below.

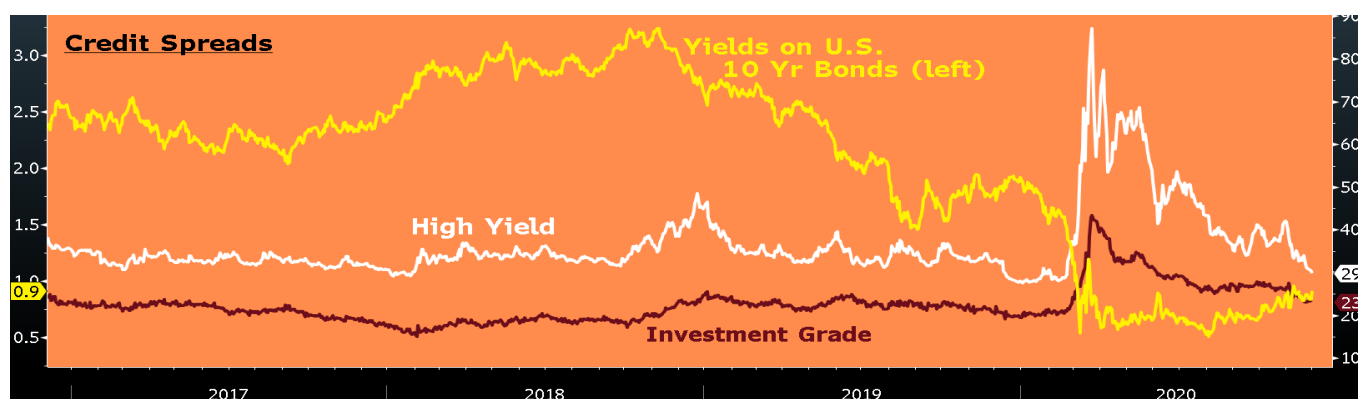
	Cyclical		Defensive	
	Cyclical Value (14%)	% of SPX	Defensive Value (17%)	% of SPX
V	Diversified Financials	4.6%	Health Care Equipment	7.0%
A	Banks	3.4%	Food, Beverage & Tobacco	3.3%
L	Energy	1.9%	Utilities	3.1%
U	Transportation	2.0%	Telecom Services	1.8%
E	Insurance	1.8%	Food & Staples Retailing	1.6%
	Autos & Components	0.4%		
G	Cyclical Growth (30%)	% of SPX	Defensive Growth (17%)	% of SPX
R	Retailing	8.6%	Software & Services	14.9%
O	Tech Hardware	8.3%	Consumer Services	1.7%
W	Media & Entertainment	7.7%	Comm. & Prof. Services	0.8%
T	Semiconductors	5.3%		
H				
B	Cyclical Both (10%)	% of SPX	Defensive Both (12%)	% of SPX
O	Capital Goods	5.7%	Pharma & Biotech	7.4%
T	Materials	2.7%	Real Estate	2.6%
H	Cons. Durables & Apparel	1.2%	Household & Personal Products	2.0%

Source: Goldman Sachs

With President-elect Biden's cabinet including 'super dove' Yellen providing the 'icing on the cake' for a great market set-up, we continue to expect equities to grind higher over time with participation from both cyclicals and large cap tech. Obviously either of a Democrat sweep of the Georgia Senate run-off on January 5th or a full COVID-related lockdown in the U.S. could disrupt this positive outlook. The former is considered unlikely by keener U.S. political observers than us and the latter seems to be a potentially impactful but low probability tail risk.

But at that juncture, assuming 2021 EPS remains on track to rebound roughly 33% towards consensus estimates of \$170, the SPX will be trading at 23.5X next year's earnings. Not exactly cheap, but yes the growthiest the SPX has ever been, especially given the upcoming inclusion of Tesla Inc. (TSLA.US), now the 6th largest market cap in the SPX at \$594B.

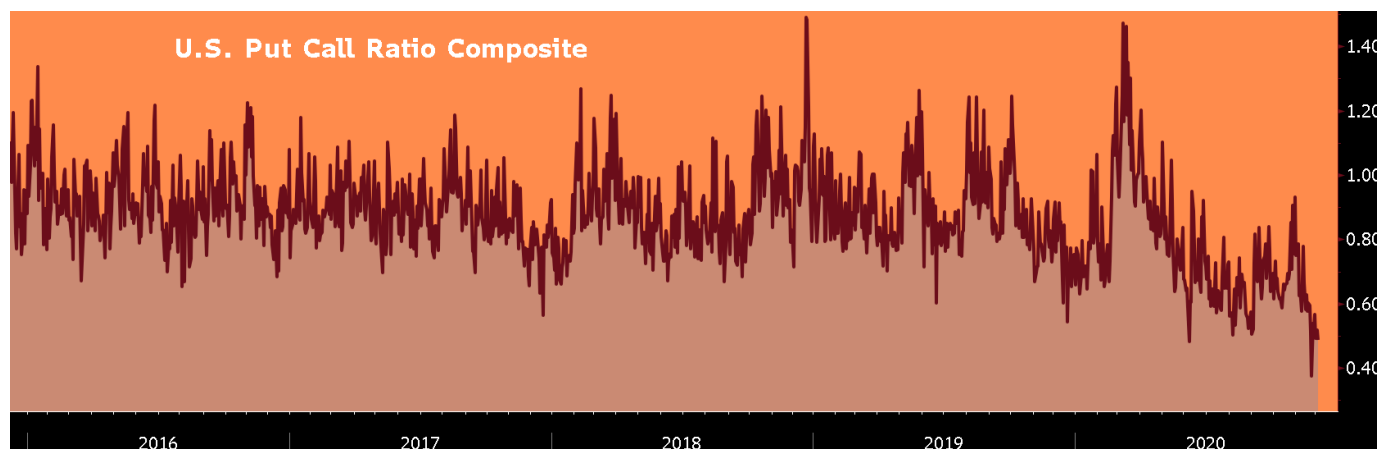
I'm aware there are many bulls that will scoff at this inference, but at 3X the calendar 2022 EV:EBITDA valuation of the multi-tentacled Amazon.com, shares in Tesla seem rich, as do many high fliers (Snowflake, Zoom Media, etc.). Historically, rich valuations ultimately become problematic for stocks, and perhaps for income Presidents! I hasten to add that in addition to equity valuations, credit is also expensive.



Source: Bloomberg

As shown in the above graph, spreads on high yield bonds (white line) are back to the lows of 2017 & 2018, even though yields on government bonds (yellow line) are less than half the level they were two to three years ago. While I don't expect interest to rise that much more on a sustainable basis, perhaps even fall post their current bear steepening trend from a trading perspective, it's tough to argue with the view that the risk on rates is asymmetrical.

Finally, I'm sure you've seen investor sentiment indicators, such as CNN's 'Greed and Fear' index, or fund flow statistics showing how investors are piling into both stocks and bonds. It seems investors have once again thrown risk to the wind and have gone 'all in' on financial assets. To that point, the new low (far right hand side) on the Put Call ratio below indicates that investors are buying few puts relative to the number of call options they are purchasing.



Source: Bloomberg

Consequently, the rationale for owning prudently managed alternative mutual funds that exhibit solid upside/downside capture ratios with liquid portfolios that always include an actively managed hedge book and feature consistent and strong risk-adjusted net returns (Sharpe ratios), has never been more cogent. To that end, may I encourage you to visit our recently revamped website: www.forgefirst.com

Finally, the strangest holiday season that I can remember is shortly to be upon us. Please accept good wishes for the good health of you and your loved ones, always, but especially during the next several weeks.

Thank you for your continued interest in our funds. Please visit our website for information on our funds or contact us at 416-687-6771 with any questions.

Thank you,

Andrew McCreath
President and CEO

Daniel Lloyd
Portfolio Manager

Keenan Murray
Portfolio Manager