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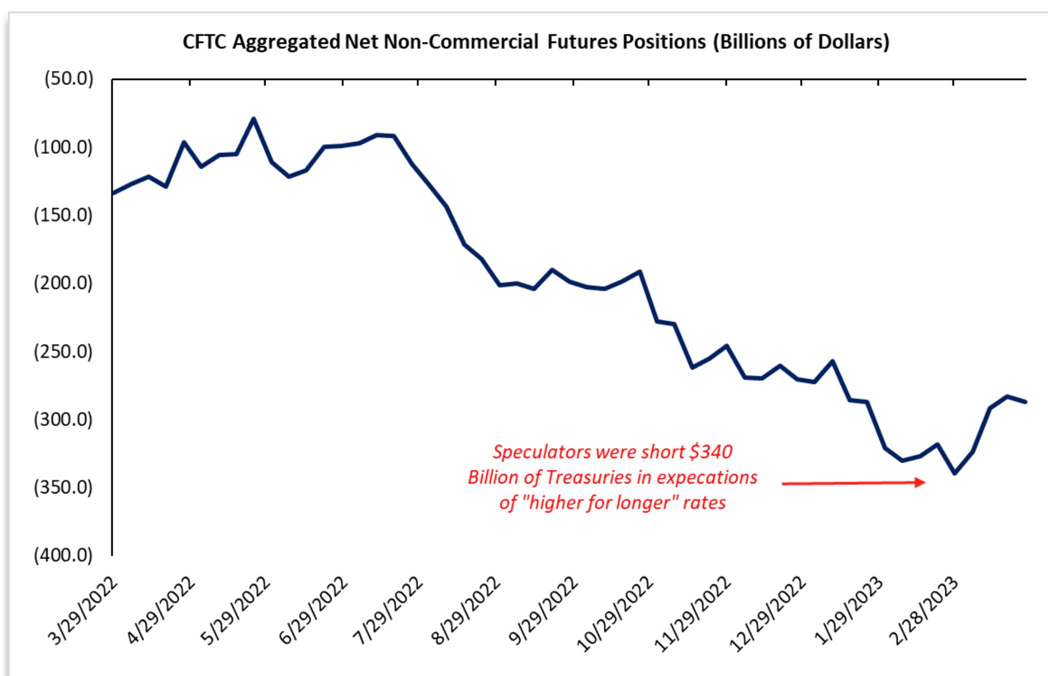
Q1 2023 Fund Commentary

Equity markets finished the quarter by doing what they so often do – defying the predictions of market strategists had that expected a difficult start to the year, and ending up 7.5% for the S&P 500, 4.6% for the TSX Composite, and a whopping 20.1% for the tech-heavy Nasdaq. The ride was not a smooth one however – the S&P 500 pulled back nearly 10% in March and was down on the year following its sharp January rally before rallying yet again into quarter end. And while the index returns finished strong, the mix of sector returns under the surface was entirely different. The average S&P 500 stock was up only 2.9%, with energy down -5.5% and financials, pressured by the regional bank crisis, falling -6.0% on the quarter. Bonds had a wild ride during the quarter as well, as the bank crisis set off a major regime shift in the expectations for rate hikes. For the first time in this bear market, long duration treasuries acted defensively and outperformed, with U.S. 30yr up 7.2%, while High Yield credit lagged, up 3.5%.

What is remarkable about this rally is that it has occurred despite various macro conditions worsening, including an earnings picture that is showing signs of cracking as operating margins continue to compress, a Fed that seems determined to squeeze in another rate hike (or two) and is strongly resisting the notion of a cut this year, and an emergent bank-run crisis that brings back unpleasant memories of the 2008 financial crisis. The answer as to why equity markets have moved higher appears in part to lie in the sudden shift in forward rate expectations, and part in the positioning (or lack thereof) of large investors and hedge funds. Investor positioning and sentiment has been exceedingly bearish for some time now as we've noted in prior letters, with long-only managers carrying high levels of cash, and with hedge funds starting the year near cycle-low levels of both net and gross exposure. In general, the positioning of speculators had been to bet on a "higher for longer" rate scenario, where stubbornly high inflation would force more and more rate hikes, and keep the pressure on the bond market. In the chart below, which aggregates the dollar value of all speculator positions across treasury contracts, we can see that they had reached a remarkable U.S. $340 billion of net shorts. When the regional bank crisis kicked off, the 2yr note (which was ~100 billion of the short position), had its largest two day move since the 1987 crash, as everyone suddenly went from pricing "higher for longer" rates and inflation, to "imminent recession" almost overnight.

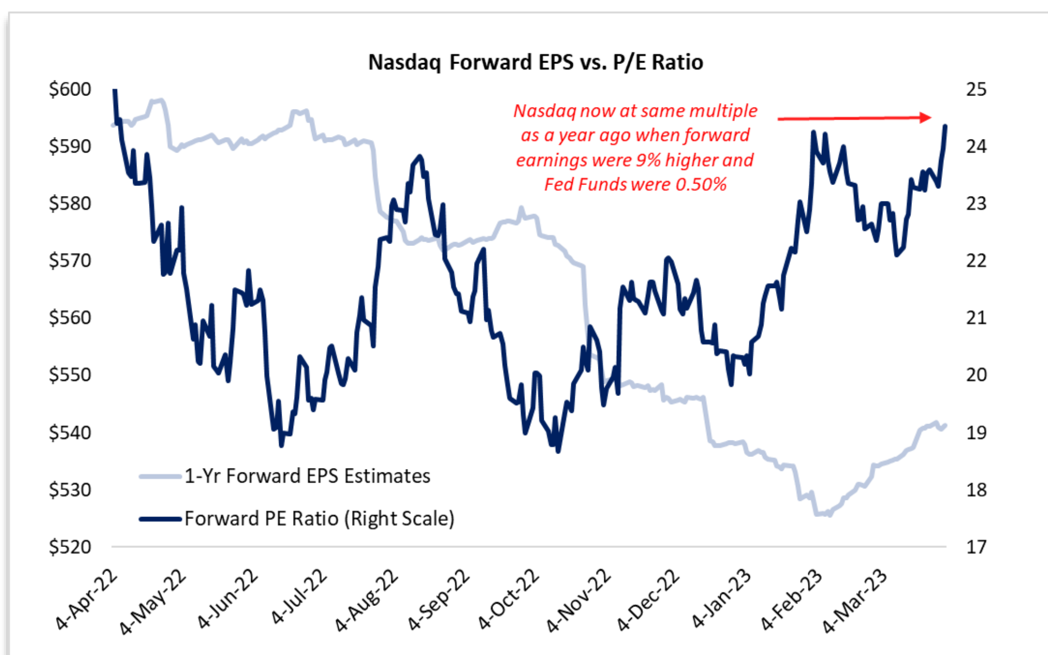


Sources: CFTC, Bloomberg, EHP Funds

A massive "VAR" shock of this magnitude ripples throughout markets, forcing hedge funds with money losing bets on their leveraged bond shorts to rush to de-risk their books. Brent crude oil futures were a popular long for the same set of investors, hitting recent highs in long exposure at the end of February, and which were swiftly sold, taking the price of oil down as much as 18% during the month. This in turn flowed through to the equities, with a "risk off" wave that saw energy, materials, and financials sell off 10-15% in a week. And why the outperformance in tech? Positioning again has played a factor, with hedge funds and mutual fund managers carrying their lowest exposure in years after the drubbing from last year, and behind their benchmarks as the large January/February short-covering rally moved tech stocks higher. Add to that the perception that mega-cap tech stocks are "defensive" (at least they can't fail like a bank, right?) and a resurgent retail crowd eager to buy the dip (the ARKK ETF took in ~$400mm *the day that SVB failed*) and you have the makings for an epic squeeze and chase, pushing the Nasdaq to "a new bull market", up 20% from its lows.

The spread of everything…

We can attest to the fact that this setup was not kind to our North American long/short funds, which in general have favoured cheaper energy, materials and non-bank financials, while avoiding or shorting expensive tech and low-quality stocks. The divergence in performance between the Nasdaq and the Dow Index, as an illustration of the extremes, was the widest since early 2001, during the earlier innings of the dot-com bubble implosion. Back then, the surge in the Nasdaq was temporary, and tech stocks proved to be anything but defensive, resuming their bear market shortly thereafter. The Nasdaq has moved higher almost entirely from multiple expansion, and remarkably, as the chart below shows, now trades at a whopping 24.3x forward PE multiple, the same multiple it carried a year ago when the Fed Funds rate was only 0.5% and the collective earnings of the constituents were 9% higher. While earnings are expected to rise slightly from today's levels as seen in the chart, a multiple like that may have made sense for rapidly growing companies in a zero-rate world, but can the same be said today?



Source: Bloomberg

We often like to think of things in terms of relative spreads, including for equities. Everything, from GICs, to corporate bonds, to merger arbitrage spreads to dividend yields and earnings spreads are ultimately compared against each other and compete for investor dollars. Since the Great Financial Crisis, the risk-free rate has been essentially zero, and spreads

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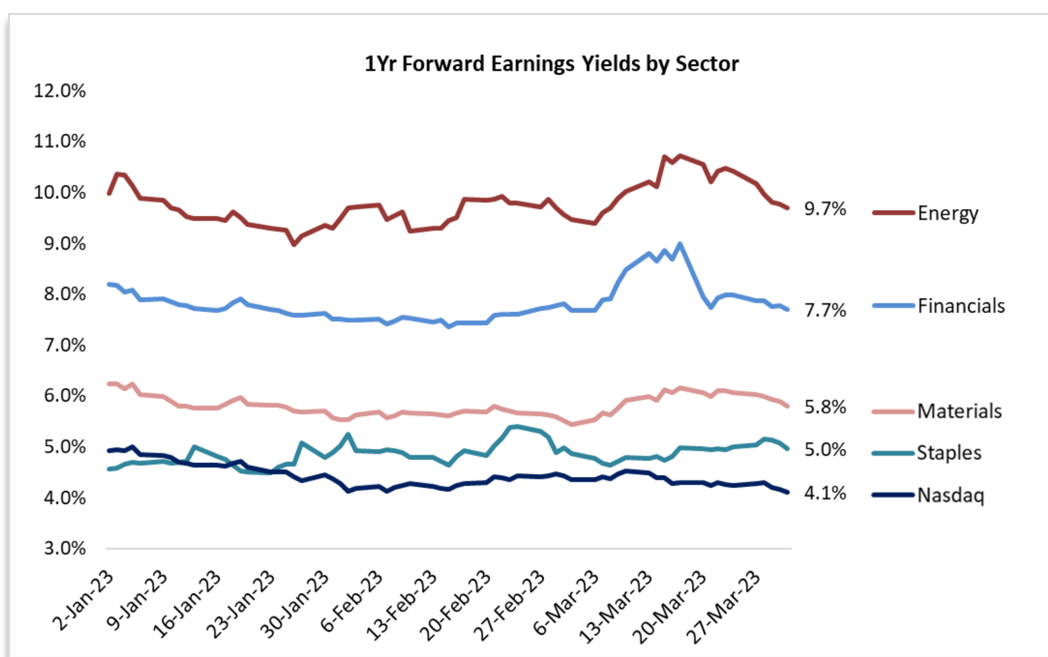
of all types naturally compressed, which was a somewhat reasonable excuse as to why equity multiples could reach new record highs and not be of much concern. Now, however, professional managers have a challenge – our returns are now measured against an interest rate that finally allows investors to earn more than 4% in the safety of cash. It's no wonder that investors en masse have rushed into GICs, money market funds and T-Bills. For those wondering why our funds would favour the sectors we do, it really comes down to earnings expectations and the valuation spreads they carry. The chart below looks at the relative earnings spreads of some of our larger sector exposures. The best forward spreads, despite an expectation of a slowdown in growth, come from energy, expected to have a 9.7% earnings yield next year (down from 13.3% over the last 12 months). Financials are expected at a 7.7% yield and materials 5.8%. The Nasdaq, at 4.1% doesn't even clear the new "hurdle rate", and so those piling in must be expecting a lot of multiple expansion to make money from here, because it isn't coming from earnings. For those that would argue big tech is actually defensive in a recession, we'd suggest that staples, which actually do have business models that are defensive, may be a better choice with an earnings yield that at least clears the risk-free rate, and a track record of stability in bear markets.



Source: Bloomberg

Investors have absolutely changed their expectations on the path of rates. Prior to the bank crisis, futures markets were discounting 3 or more hikes before the end of summer (hence the large bonds short by speculators). After the crisis, futures now imply one more hike, and then at least 2 rate cuts starting in September. These recent expectations may be right, as the Fed typically hikes until something breaks, and it's pretty clear that something is indeed broken with the regional bank system as it relates to uninsured deposits and non marked-to-market losses on treasury holdings. But even so, at current multiples, investors with high weights to technology had better be right about both the path of inflation (lower) and the willingness of the Fed to cut rates. Rate cuts won't come, in our opinion, unless the economy truly rolls over, with earnings declining meaningfully and employment rising (in other words – a recession). We think it very unlikely that the most expensive stocks will perform the best in a full-blown recession, making the set up today quite precarious for expensive, or low-quality stocks.

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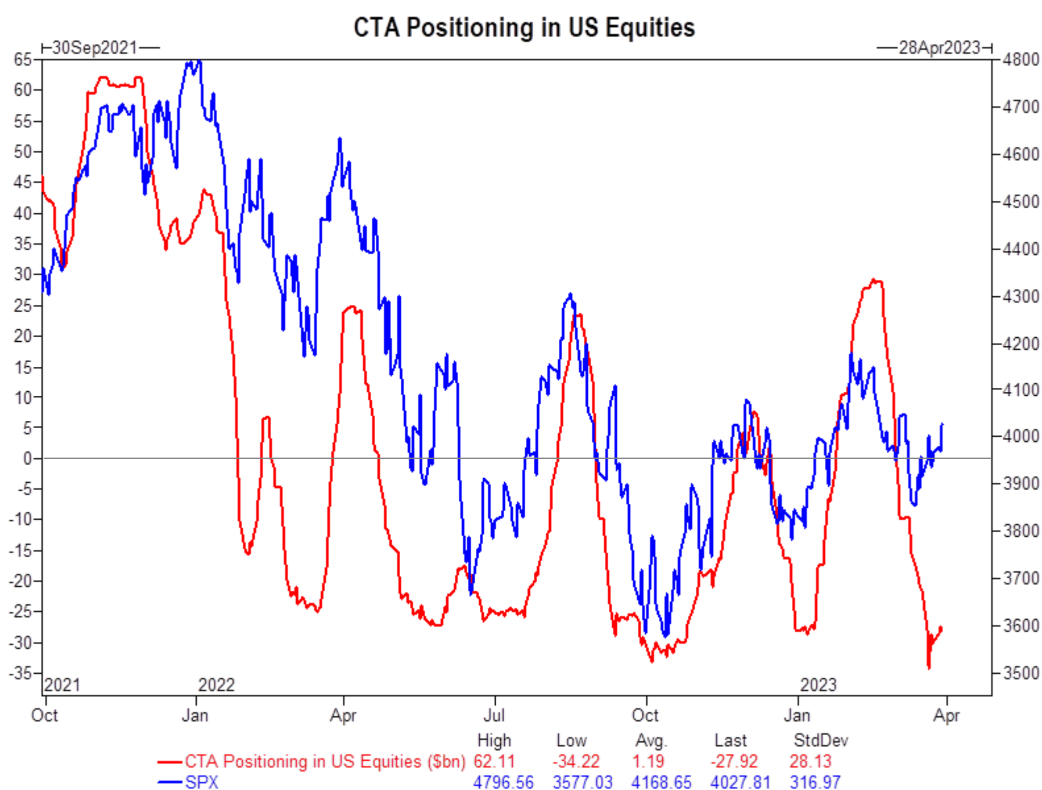
The systematic seesaw…

We talk a lot about investor positioning as being a driver of recent returns. The reason is that in markets where the longer-term fundamental investors have light positioning, it follows that the remaining money flow can have an outsized impact on prices. As Ben Graham noted, in the short run, the market is indeed a "voting machine", and lately systematic investors are the ones who carry a lot of the votes. CTAs, or "Commodity Trading Advisors" are a broad group of systematic investors that are generally trend followers. Our own process has an element of CTA-like behaviour in that we are trend followers for our overall fund risk allocations. As a trend follower, money isn't made at the turns, but rather in the "meaty middle" of a trend. Over the long history of markets, the middle part of a trend has lasted long enough on average for trend followers to get into an emerging trend after the turn higher, and exit after the turn lower, earning the profits from the "middle". But lately, the only trend has been that of persistent whipsaw, or trends that last a short time only to reverse in the other direction. The chart below shows CTA positioning versus the S&P 500 since the bear market began. What becomes obvious is that the moves in the S&P 500 have been large enough to trigger huge positioning shifts above and below the zero line, causing "whipsaw" losses over and over again as this group moves from long to short and then long again. Where do CTAs sit today as we roll into the new quarter? They are short ~$15B of the index, with a new trend "buy" signal that will cause them to buy $30B in a week, and $45B over a month, flipping their positions to net long yet again, all things equal.



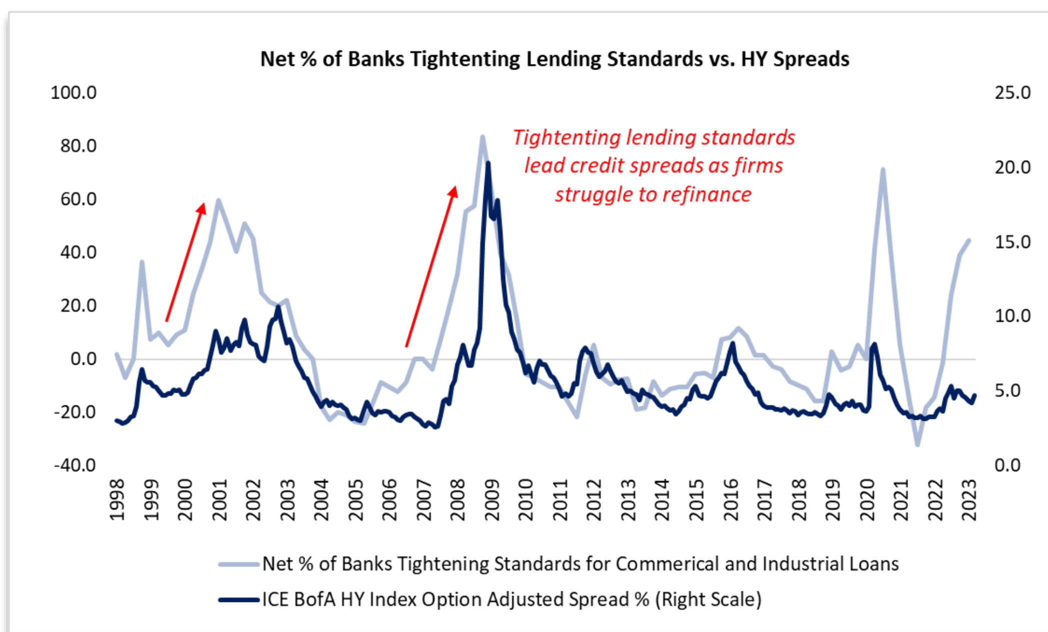
Source: Goldman Sachs

Given this lack of signal among the noise, its easy to see why investors may choose to believe a process like trend following is broken, and won't work again in the future. We'd argue that comparing one year of whipsaw to 200+ years of trends working over the long run would suggest that might be short-sighted, but it in no way makes it less frustrating for us and our performance in the short term. Ultimately, we believe that much of this chop has been driven by the unprecedented combination of too much money in the system post-Covid, and the Fed's efforts to slow down the economy through rate hikes. It has created a confusing mix of macro signals (for example, earnings and employment

strong while yield curves suggests imminent recession). As the Fed reaches the end of its hiking cycle, we'd expect more normal trend conditions to take hold as the macro direction comes to a head.

Knock-on effects and the need for defensive credit?

While the Fed and treasury have acted quickly and fairly effectively to put a pin in the bank run, it hasn't solved some of the key issues, including the recognition by depositors that they may incur losses holding cash (leading to an ongoing shift from cash deposits to money market or T-Bills), and the fact that banks are holding a lot of underwater investments in long-dated treasuries that aren't marked-to-market. The U.S. wants a healthy regional bank industry – banks with less than $250B of assets account for 50% of U.S. commercial and industrial lending, 60% of residential real estate and 80% of commercial real estate (source: Goldman Sachs) – it's clear that they play a critical role in economic growth. We expect that regulators will find solutions toward solving these issues, but in the near term, there are some important knock-on effects of this crisis. It has brought to the forefront a trend that had already been in place since the market downturn, that of bank lending standards. The chart below shows a measurement from the Federal Reserve which shows what percentage of banks are tightening or loosening lending standards. Recent events will only continue the trend of tightening, which will serve the Fed's goal of slowing down the economy and inflation, but exposes a risk to credit markets. In the past, tightening standards have led to a widening of credit spreads, as measured by the HY OAS, with about a 1-year lead, and a big gap has opened up between current credit spreads and the implied impact from the bank tightening. As banks tighten, refinancings become more difficult and more expensive. We're already seeing this play out in the real estate market, where there have been multiple defaults on properties from well know names like Brookfield, PIMCO and Blackstone. We should expect more to come given the sorry state of office vacancy, now running at 18.7% in the U.S.

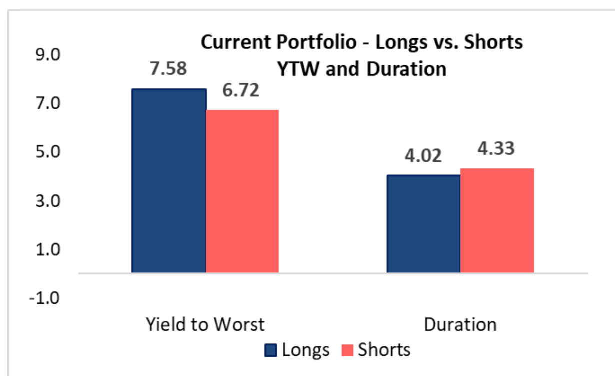


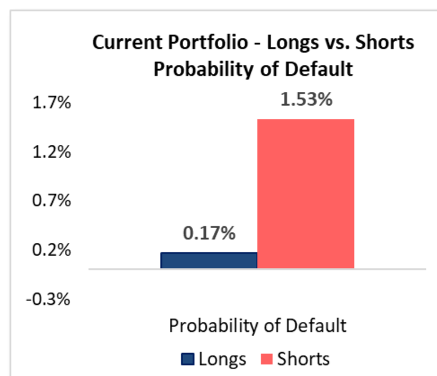
Source: Federal Reserve Board (FRED.gov), ICE

Credit has not been at the center of this market downturn so far, and most of the decline in credit indices last year were the result of rising interest rates, not deteriorating credit conditions and widening spreads. That may very well change if we do enter a more meaningful recession, and the bank crisis, if nothing else, increases the odds of this happening. On the other hand, absolute yields are healthy in credit at 8.5%, which is appealing assuming the worst doesn't come to pass. We believe we offer a practical solution in our EHP Strategic Income Alternative Fund. As a true long/short bond fund, as we believe it is even more important to own the "right" credits that have a much lower chance of default in a

bad economy, and short worse credits with higher default risk. We also believe in being able to cut directional market risk by rotating partially to defensive instruments. The Fund uses both of these approaches to offer a good yield, while still providing downside protection. One of the things that was noticeable during the heat of the bank run crisis was that long-dated U.S. Treasury duration became a flight-to-safety asset again, and became uncorrelated with stocks and credit. As the Fed pauses their hiking campaign, and presumably stands ready to cut in the event of a recession, we expect this negative correlation will continue, adding tactical duration back as a very useful defensive tool in our toolkit.

Currently, the EHP Strategic Income Alternative Fund is carrying a net yield of 7.6%, and we've been able to high-grade somewhat, increasing our net yield while preserving the embedded "put" that comes from having shorts with similar duration but 9x the probability of default as our longs (see below). Paired with our process of adding tactical duration, we think the Fund offers a unique opportunity to "have your cake and eat it too" in the credit space.





Source: Bloomberg, EHP Funds

A note on merger arbitrage

Earlier we talked about our tendency to consider all investments against each other in terms of the spreads they offer. Merger arbitrage spreads have widened again, with the average spread approaching 13% annualized. This figure is a bit misleading however, as there really are two groups of spreads – those with regulatory risk and those without. As we've noted before, the FTC has been incredibly aggressive at challenging deals, expanding closing timelines and suing to block deals. While they have been losing in the courts, their real objective in our view is to stop these mergers from even being inked in the first place. The cohort of deals with these and other risks are trading very wide, and we tend to avoid them unless we can structure an options trade that changes the risk reward payoff (as we believe we have done with the FHN/TD Bank deal that we added back after successfully avoiding it into the bank crisis). The group of safer deals without these risk still trades at a healthy spread, currently trading in the 7-9% annualized return range, competitive versus the high yield market. Encouragingly, we have seen good deal volume overall despite the uncertain market backdrop, meaning we have a full slate of deals to invest in currently.

SPACs have become a smaller portion of the portfolio as we have redeemed them at NAV, and as their spreads have tightened relative to vanilla merger arbitrage. That said, with an "all-in" yield of ~6.5% after accounting for the yield they generate by holding T-Bills in trust, and with the optionality for a "good" deal that sends the share price above NAV offered for free, SPACs are still competitive versus corporates and will continue to have a place in our portfolios as an alternative to cash. The market for SPAC IPOs has woken up again, with a dozen or so new SPACs listed, so it is clear that there remains a market for these speciality instruments despite the challenges they faced last year.

Where to from here?

We have been immensely frustrated with recent returns in our North American equity long/short funds, and while we understand the market conditions that have caused us grief, we can respect that clients may be less forgiving in the face

of alternatives like the Nasdaq rushing higher at the same time as we're struggling. We've always believed that Funds that run a consistent process will have periods where they outperform and periods when they don't, but that it is incredibly important for managers to stay true to that process and avoid the temptation for style drift. This isn't to say that improvements to process can't be made – they absolutely should, and we continue to research approaches to improve our results. But we also believe we owe it to our clients to avoid doing things where there is strong historical evidence against it (like buying expensive, low quality stocks). We know over time that our process has added value, and we see it continuing to add value today in our global long/short funds where the whipsaw environment has been much less impactful. On the other hand, we've been pleased both with the recent performance and the opportunity set we see in long/short income and arbitrage strategies as noted above. As always, we will remain patient and disciplined in terms of applying our process, following an approach that relies on actual market changes and not forecasts of such.

We thank you as always for continuing to trust us with your investment dollars.

Fund Specific Commentary

Summary of Returns as of March 31, 2023 (F-Class unless otherwise denoted):

Fund	1M	3M	YTD	1YR	3YR	Inception
Defensive/Conservative Funds:						
EHP Foundation Alternative Fund	-1.4%	-2.0%	-2.0%	-4.1%	2.4%	2.2%
EHP Global Arbitrage Alternative Fund	-0.1%	2.2%	2.2%	-1.8%	6.8%	5.6%
EHP Strategic Income Alternative Fund	0.7%	1.6%	1.6%	0.7%		1.7%
EHP Multi-Asset Absolute Return Alt. Fund[1]	-3.1%	-3.1%	-3.1%	-1.3%		3.4%
Core/Moderate Funds:						
EHP Advantage Alternative Fund	-4.5%	-6.2%	-6.2%	-10.6%	3.3%	2.3%
EHP Advantage International Alternative Fund	0.4%	2.7%	2.7%	-5.4%	2.4%	1.0%
EHP Select Alternative Fund	-6.5%	-4.2%	-4.2%	-19.2%	10.3%	5.0%
EHP Global Multi-Strategy Alternative Fund[1]	-2.0%	-1.1%	-1.1%	-7.6%		0.0%
Specialty Funds:						
EHP Global ESG Leaders Alternative Fund	1.4%	0.2%	0.2%	3.3%		2.7%

Defensive / Conservative Funds

EHP Foundation Alternative Fund

The Fund was down 2.0% during the quarter, with losses almost entirely from short positions as equity markets staged a choppy rally into quarter end. Market breadth has been extremely narrow, with just a handful of the largest tech stocks accounting for nearly all of the gains for the S&P 500. Our U.S. long positions actually had small losses on the quarter given the Fund currently favours more economically sensitive sectors with higher dividend yields that did not participate in the tech-driven rally. From a factor perspective, there was a lot of volatility as well, with each major factor style we invest in seemingly taking turns as to what was challenged. In the final tally, Value, Quality, Momentum and Low Volatility were all down anywhere from -7% to -15% on a market neutral basis, while only Growth was up 11% over the period. Markets whipsawed from bullish to bearish several times over the quarter, in a continuation of the chop we experienced last year. As the Fed draws closer to the end of its hiking cycle, we anticipate that longer-term trends (whether up or down) may reassert themselves.

Our Credit Momentum strategy had small gains over the quarter despite a choppy quarter in high yield. Notably, a brief shift into U.S. long bonds during the banking crisis added value for the first time since the Fed began hiking. As we've been suggesting, we believe that flight-to-safety duration will prove to be a useful tool if we do enter a recession. At the end of the quarter, we are migrating from defensive treasuries to high yield in the Fund.

From a sector perspective, the Fund has moderate net exposure to high dividend paying stocks in materials, financials and select technology stocks, while underweight real estate, utilities and consumer discretionary where yields are lower or less sustainable. The Fund enters Q2 with markets mixed in terms of risk, and with an estimated beta to equity markets of approximately 0.2.

EHP Global Arbitrage Alternative Fund

The Fund was up 2.2% over the quarter during a period where the S&P Merger Arbitrage TR Index declined -1.5%. Gains came from a blend of deals closing during the quarter, continued accretion to NAV for our SPAC portfolio as well as some early redemption opportunities, and the good fortune to have owned a meaningful position in Noranda Income Fund which received a 36% bump from Glencore, an outcome we thought possible given the strategic nature of the company to the buyer. We avoided the challenges that arose in the quarter, specifically with regional bank deals, such as FHN/TD which blew out to very wide spreads on fear that TD would use the opportunity to walk away from the deal. We like to revisit timed-out deals when this type of event happens, and we've added a position in FHN backstopped by put options that give us a more defined risk/reward with limited downside. We believe that TD does want the transaction to proceed, but we do expect them to try and get a small reprice.

Merger arb spreads are attractive in our view as we noted in the main body of the letter. We continue to avoid deals with regulatory risk as our odds of being "timed-out", which is a part of our risk process, increases materially. While deals like Rogers/Shaw ultimately closed as we expected, that spread traded wide until the very last day before approval, meaning a risk process that times-out of these challenged deals would not have realized much of a return. New deal flow remains healthy, which is an encouraging sign, but we are mindful of the risk of a credit crisis developing, as a consequence of the bank crisis, and stand ready to decrease merger risk and add defence in that event.

The Fund participated in 55 traditional arbitrage opportunities, and holds 29 positions as of the end of the quarter. SPACs now account for approximately 16% of the Fund, represented by 133 positions. The outlook for deal flow is hard to handicap, in particular because the risk of the high yield bond market becoming stressed in a recession scenario would likely slow the pace of private equity deals which typically rely on levered financing. The market is concerned about a growth slowdown, which would further pressure deal flow if it comes to pass, although typically even during recessionary periods there can be adequate deal flow priced with wide spreads to maintain an attractive overall return. Rising interest rates tend to be a benefit for merger arb in that new deal spreads reflect the higher yields immediately, increasing notional returns on these mergers. Given that mergers tend to be completed in 3-6 months, the strategy is akin to a "floating rate" note that adjusts quickly to the current yield environment.

EHP Strategic Income Alternative Fund

The Fund was up 1.6% in a choppy first quarter that started with a strong January, followed by a sell-off in February and a recovery in March (initially in treasuries followed by high yield in the last part of the month). The Core long/short credit strategy had a 130bps positive contribution (our selection and shorts in the real estate sector being a more notable contributor), credit momentum had a 31bps contribution while the risk arbitrage bucket had a small -7bps negative contribution.

The Bloomberg Barclays US Aggregate Bond Index was up 3.0%, which was essentially all gained in January, as February and March returns netted out flat. Following a similar monthly pattern, the Bloomberg Barclays US Corporate High Yield Bond Index was up 3.6% in the first quarter. Within high yield, CCC credits were up 5.0%, B credits +3.9% and BB credits down 3.3%. U.S. high yield issuance continued to be subdued, with bond sales at a modest $39bn of which only $4.9bn

came in March. Spreads of investment-grade corporate bonds ended the quarter at 140 basis points over Treasuries, 10 basis points wider than the end of 2022. The risk premium on high-yield debt ended the quarter at 472 basis points, just 3 basis points wider than at the end of the year. The US 10-year treasury rate ended the quarter at 3.46%, 42bps tighter than at the endo of the year.

High yield spreads remain in the wider half of their historic range (most of the time high yield spreads trade in the 300-400 basis points range) and with the all-in yields at 8.7% high yield will provide attractive returns long term.

We continued to run our disciplined portfolio management process in Q2, albeit at a lower churn given the wider spreads and implied trading costs. Last quarter's events and news flows are a testament that while markets seem to want to rally, we are not out of the woods yet, and we get comfort in our ability to quickly adapt to changing market regimes. More, our basket of short bonds that have high probability of default should offer good protection if current tightening policy will end up triggering a default cycle.

We enter Q2 of 2023 with credit risk at the higher end of its range, with duration of 3.7, and net yield of 6.9% (including the estimated yield from SPACs). The Fund's largest sector exposure is non-bank Financials at 18% followed by Energy at 14%.

EHP Multi-Asset Absolute Return Alternative Fund

The Fund was down -3.1% over the quarter, with losses coming primarily from trend and volatility strategies, while relative value was a small positive contributor.

In commodities, performance was positive for relative value, negative for volatility, while trend was flat. In equities, volatility and trend were significant negative contributors for the quarter, as whipsaws during the banking crisis created losses for our defensive positioning. In currencies, relative value was a positive contributor to performance while trend was negative. In fixed income, relative value was flat while trend was a significant negative contributor as trends reversed and bonds rallied suddenly due to the banking crisis.

Heading into Q2 of 2023, we are well positioned to provide an active hedge against volatile environments caused by inflation or recession, and diversifying absolute returns to replace equity and bonds in a portfolio. Equity positioning is currently long, with the recent shift to stability, however, we are ready to take advantage of a higher volatility environment should recession or inflation fears resurface. Current positioning in bonds, based on trend and relative value, is biased long with a relative preference for higher yielding Australian bonds versus Canadian and US bonds. In currencies we favour the value and trend of GBP and JPY versus AUD and CAD. Commodity trend and relative value currently favour the long end of curves over short, with relative value positioning providing continued active inflation protection, with long positions in energies and agricultural commodities and some shorts in industrial metals. As always, the Fund will actively adapt positioning to changes in markets and volatility that will inevitably come with developments regarding supply, demand, inflation, central banks, COVID, geopolitical tensions and otherwise.

Core / Moderate Funds

EHP Advantage Alternative Fund

The Fund was down -6.2% during the quarter, with losses almost entirely from short positions as equity markets staged a choppy rally into quarter end. Market breadth has been extremely narrow, with just a handful of the largest tech stocks accounting for nearly all of the gains for the S&P 500. Our U.S. long positions actually had small losses on the quarter given the Fund currently favours more economically sensitive sectors in energy, materials and financials that did not participate in the tech-driven rally. From a factor perspective, there was a lot of volatility as well, with each major factor style we invest in seemingly taking turns as to what was challenged. In the final tally, Value, Quality,

Momentum and Low Volatility were all down anywhere from -7% to -15% on a market neutral basis, while only Growth was up 11% over the period. Markets whipsawed from bullish to bearish several times over the quarter, in a continuation of the chop we experienced last year. As the Fed draw closer to the end of its hiking cycle, we anticipate that longer-term trends (whether up or down) may reassert themselves.

Our Credit Momentum strategy had small gains over the quarter despite a choppy quarter in high yield. Notably, a brief shift into U.S. long bonds during the banking crisis added value for the first time since the Fed began hiking. As we've been suggesting, we believe that flight-to-safety duration will prove to be a useful tool if we do enter a recession. At the end of the quarter, we are migrating from defensive treasuries to high yield in the Fund.

From a sector perspective, the Fund remains positioned in the cheaper, higher quality parts of the market, including financials, energy and materials. The allocation to staples has increased again, a reflection of the underlying fear that the bank crisis brought to defensive sectors, and one where we see more reasonable pricing vs. the supposedly defensive tech mega-caps. We continue to carry net shorts in real estate and utilities, sectors where we continue to be concerned about their ability to refinance high debt levels given the current environment. The Fund enters Q2 with markets mixed in terms of risk, and with an estimated beta to equity markets of approximately 0.5.

EHP Advantage International Alternative Fund

The Fund was up 2.7% during the quarter, with gains primarily from European longs, partially offset by losses in short positions across multiple regions. Broad markets were stronger in Europe than in North America, and weren't subject to the same levels of "whipsaw" and factor volatility that was experienced in our home markets. That said, shorts still held back returns as some of the bid for expensive growth flowed through to international names. Despite the strong headline index performance, we are becoming incrementally more concerned about European economic growth, with our indicators showing a more marked slowdown than in other regions, at odds with the market performance. Currently we remain risk-on for beta risk, and will maintain that until markets reflect concern as well.

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From a sector perspective, the Fund is positioned in the cheaper, higher quality parts of the market, including materials, select discretionary names, industrials and financials. The allocation to staples has increased again, a reflection of the underlying fear that the bank crisis brought to defensive sectors, and one where we see more reasonable pricing vs. the supposedly defensive tech stocks. We continue to be net short in real estate, a sector where we continue to be concerned about their ability to refinance high debt levels given the current environment. The Fund enters Q2 with markets nearer the higher end of its risk range, and with an estimated beta to equity markets of approximately 0.6.

EHP Select Alternative Fund

The Fund was down -4.2% over the quarter, with small gains from long positions which were more than offset by losses on shorts. The Fund's bias to cheaper cyclical stocks in energy and basic materials while avoiding or shorting expensive and unprofitable tech stocks, was a challenge in an environment that saw aggressive short covering in tech (up 26% during the quarter) and selling of energy (down 3.6% on the quarter) following the U.S. bank crisis.

The Fund is biased to buying higher quality, cheaper stocks, and on that measure the portfolio is holding very cheap companies overall with strong balance sheets. The Fund is well positioned for a cyclical recovery, with exposure in energy, materials, and an increased allocation to consumer discretionary. We continue to avoid expensive technology stocks. We remain short real estate and utilities where increased funding costs are likely to compress future earnings.

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<u>EHP Global Multi-Strategy Alternative Fund</u>

The Fund was down -1.1% for the quarter. As a "fund of funds", the Fund holds interests in a number of our EHP alternative mutual funds, with a tactical approach to rotating assets to more defensive strategies as markets become more volatile, and our risk triggers are hit. The Fund entered Q1 mixed in terms of our risk ranges, with a blend of strategies reflecting a mix of "risk-on" and "risk-off" markets globally, but subsequently added back some exposure as markets recovered near the end of the quarter. We enter Q2 with the underlying funds mixed in terms of risk exposure, waiting for a clearer signal of market direction from the noise of repetitive whipsaw. Both merger arbitrage and credit allocations are showing some of the best opportunities currently, while North American equity long/short has struggled with persistent whipsaw and style factors working against us as described in the fund commentaries above.

Specialty Funds

<u>EHP Global ESG Leaders Alternative Fund</u>

The Fund was up 0.2% for the quarter, with gains on higher quality longs more or less offset by losses on our shorts in expensive or unprofitable technology, and other lower quality businesses. Our credit momentum strategy was briefly allocated to U.S. long-dated treasuries as the U.S. bank crisis kicked off, adding a measure of protection as flight-to-safety duration became uncorrelated with equities for the first time in this bear market. We anticipate that if the economy does roll into a full-blown recession, this tool will prove to be highly useful again in protecting capital.

The Fund utilizes a simplified risk model that uses the MSCI World Index as its primary risk-on/risk-off indicator. We've had the good fortune of avoiding the whipsaw that has plagued our other equity funds this year, as well as owning high-scoring ESG companies that carry a defensive tilt, meaning a lower overall fund beta than our non-ESG funds, that have had exposure to more volatile energy and materials sectors.

The Fund enters Q2 risk-on, with its highest exposures to defensive staples, and reasonably priced, high quality, high ESG scoring companies in financials, industrials and consumer discretionary. We are avoiding expensive technology sectors, and are sightly net short utilities and real estate where we see continued financing risk for these typically debt-heavy sectors.

The Fund's objective is to select longs from a universe of global stocks that are considered "ESG leaders" in their sectors as defined by MSCI. From this universe of ~700 global companies, we apply our time-tested approach of buying those that score well on value/quality, momentum, and low volatility measures. Our shorts comprise global stocks that are expensive, declining and volatile, and excludes any company considered an ESG leader as defined by MSCI. More details on MSCI's methodology can be found here:

https://www.msci.com/eqb/methodology/meth_docs/MSCI_ESG_Leaders_Methodology_Nov2020.pdf

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Disclaimers

Returns are for "F" class units of the Funds, are annualized and since inception unless otherwise noted, and are net of fees and expenses. Statistics are calculated using monthly returns. Partial year returns are unaudited. Index statistics use total return indices. The composition of the Funds' portfolio could differ significantly from the index due to the investment strategy employed, and includes differences such as use of credit strategies, use of equal weight positions, use of short positions, varying fund net exposure, varying currency exposure, and investing in small capitalization stocks. Unless otherwise noted, all values are in U.S. dollars. Source for all index and return data and statistics if not otherwise referenced: data: Bloomberg.

[1]The EHP Global Multi-Strategy Alternative Fund (formerly the EHP Global Multi-Strategy Fund) (the "GMS Fund") was not a reporting issuer during the period of December 28, 2020, to December 31, 2021 (the "GMS Relief Period").The EHP Multi-Asset Absolute Return Alternative Fund (formerly the EHP Multi-Asset Absolute Return Fund)(the "MAAR Fund") was not a reporting issuer during the period of November 1, 2021, to August 1, 2022 (the "MAAR Relief Period"). EHP Funds, the manager of both the GMS Fund and MAAR Fund, obtained exemptive relief on behalf of each such Fund to permit the disclosure of performance data of the units of the applicable Fund relating to the respective GMS Relief Period and MAAR Relief Period, prior to which each such Fund was not a reporting issuer. On January 1, 2022, the GMS Fund and on August 2, 2022, the MAAR Fund each became a reporting issuer. While the manager reduced, as of January 1, 2022, and August 2, 2022, where applicable, both the management fee rate (from 2% to 1.9% for Class A and Class UA units and from 1% to 0.9% for Class F and Class UF units) and the performance fee rate (from 20% to 15% for Class A, UA, F and UF units) for the applicable class of units of the applicable Fund, the other operating expenses of each Fund would have been higher during the respective GMS Relief Period and MAAR Relief Period that each Fund was not a reporting issuer due to the additional regulatory requirements applicable to a reporting issuer This material has been published by EHP Funds. It is provided as a general source of information, is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable.

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Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus or offering memorandum, where applicable, before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. EHP Funds Inc. is the investment manager to the EHP Funds offered under prospectus. EdgeHill Partners is the investment manager to the EHP Funds offered under offering memorandum, and is an affiliate of EHP Funds Inc. The Funds are available only in those jurisdictions where it may be lawfully offered for sale. This document is not intended to provide legal, accounting, tax or investment advice.

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