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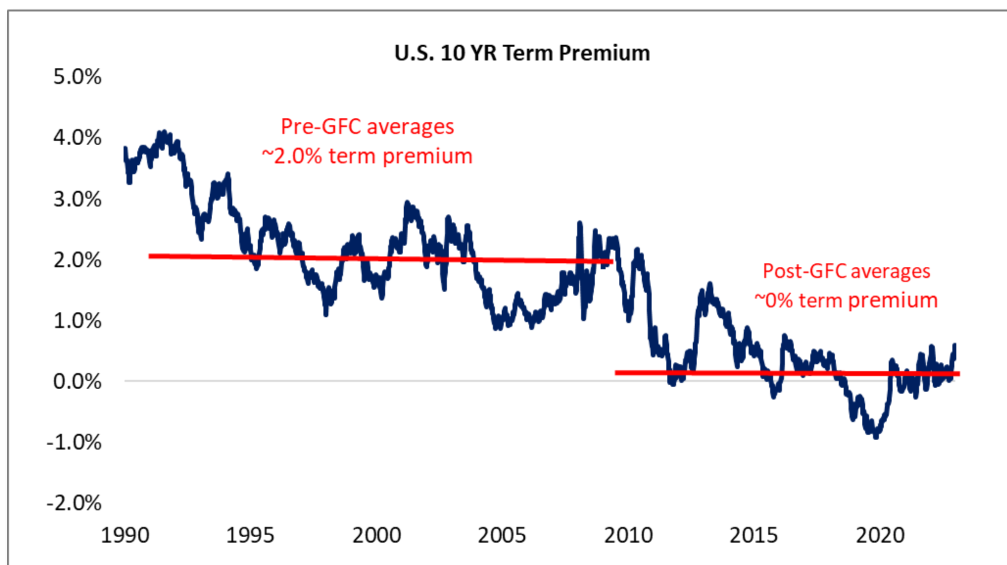
Q2 2023 Fund Commentary

Equity markets were challenged in Q3, with the S&P 500 declining -3.3% and the S&P TSX falling -2.1%. The average stock fared considerably worse, with the equal weight S&P 500 Index falling -5.4%. The moves continued the pattern of the last few years of a see-saw market that cannot sustain a trend in either direction for very long, as the tug-of-war between an unexpectedly resilient economy and the escalating interest rates that are designed to temper its growth plays out. The fairly sharp, although rather orderly, market declines of the last few months have left both the equal-weighted S&P 500 and the TSX Composite essentially flat on the year, and in fact flat since the spring of 2021 when inflation was just starting to hit the headlines as a concern. For our Funds, which in part rely on market and stock price trends having a consistent direction (either up or down), as well as somewhat rational pricing between expensive and cheaper equities, the last two and a half years of "go nowhere" markets marked by sharp short-covering rallies and quick retracements have proven to be our most challenging to date. We suspect that most of this market grief has been caused by the oddities of the massive stimulus during COVID, and then the rapid removal of accommodation through one of the fastest rate-hike cycles in history, and that more "normal" times will ultimately return on the other side of it. At the same time, we acknowledge potential lasting shifts in market structure, which require us to adapt our strategies accordingly. We'll discuss some of these market changes, and our additional approaches to not only respect them, but also to profit from them.

A Crisis in Duration?

While equities typically get the headlines, the real show for the past three years has been in the bond market. Bonds are now on pace to put in three successive negative calendar-year returns, something that has never happened going back to 1928. Worst still for investors, bonds are no longer providing the diversification from equities crucial to making the "60/40" model work. The current issue lies at the long end of the curve. While we believe that duration will reclaim its premium role in defensive allocations, it might become the catalyst for the next market crisis before that happens. Investors are increasingly recognizing that we might be in a "higher for longer" scenario. In this context, inflation, especially in wages, services, and rents, remains persistently high, prompting the Fed to maintain elevated interest rates. There are growing arguments for the Fed to raise its 2% inflation target to something more "realistic" in this environment, to perhaps a 3% higher-end target. If this scenario turns out to be true, then logically you would expect that investors will want to be compensated for holding longer duration debt that is most affected by persistently high rates. This "term premium", or the premium that investors demand for holding long-term debt over short term, is now positive, in contrast to where it has been for the better part of the post-financial crisis era when rates were effectively zero. The chart to the right shows the two major regimes:



Source: Bloomberg, US Federal Reserve

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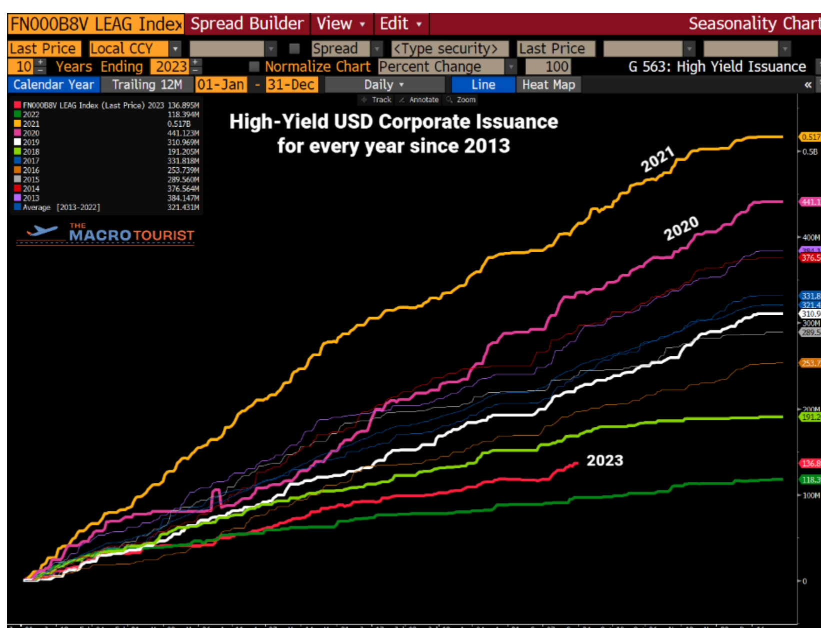
As we can see from the chart, investors used to demand on average a 2% term premium to hold 10yr debt over short term. If rates are going to stay higher for longer, then investors can just buy short term debt and roll it to buy the next leg without a lot of risk that rates have reset lower. The market is gradually realizing that the “new” normal might revert to the “old” pre-GFC standard, leading to a swift repricing of duration. Duration has a host of other challenges as well – funding large fiscal deficits and paying big interest bills means there will be a lot of treasury issuance to come. Concurrently, both Japan and China have transitioned to net sellers of USTs. Japan is offloading dollars to purchase Yen in defense of its ultra-accommodative policy. China, on the other hand, is partly divesting to diversify away from the U.S. and also to bolster its currency amidst efforts to stabilize its debt-laden economy. So, who are the buyers of this much paper, or more importantly – what is the clearing price for this much issuance? The answer is not clear to us, but presumably there is a “higher” yield required. Our approach as always is to use trend to help define when it is safe to get back in the water, and that holds true for duration as well. As much as we believed that rates had reset enough to make long bonds a useful tool in a portfolio again, that has yet to be the case. Our safety valve of owning either credit or duration only if either is in an uptrend has avoided damage, and we’ll continue to use that approach to guide us for timing the eventual rate cut cycle.

Higher long rates, of course, have a knock-on effect on other parts of the market. Hedge funds are massively short longer-dated bonds as a part of their “basis” trade, a complex trade where funds buy bonds and short futures against them to pick up a small arbitrage. The trade needs a ton of leverage, and so small shifts in the wrong direction or in collateral requirements can cause accidents. Regional banks, with their “held to maturity” securities, will continue to incur balance sheet losses in reality. However, these won't be evident since they aren't required to mark-to-market. This discrepancy will only surface during a crisis when individuals seek the actual value of their money, not the unmarked-to-market value. We are also rapidly seeing the effect of higher rates in the most rate-sensitive sectors; utilities and REITs, where losses are piling up in what are typically more defensive parts of the market. All of this to say that perhaps the only chart that matters is that of the 10yr yield, now at the highest levels since 2007, and showing no signs of stopping soon.

High Yield is in better shape…for now

Credit markets have remained remarkably stable throughout this two-year bond-bear market. The primary detriment to their returns has been interest rates, not the widening of credit spreads. Why has this been the case? Similar to U.S. homeowners who capitalized on low rates to extend their mortgage terms, corporates followed suit. They locked in these favorable rates, sidestepping the potential harm a rate hike cycle might impose. The high-yield market has approximately $1.3 trillion in issued debt. Notably, in 2020 and 2021, issuers refinanced an impressive $800 billion of that sum, constituting nearly two-thirds. With a hat tip to Kevin Muir of The MacroTourist, the chart to the right shows this outlier, with the top two lines showing issuance for those two years. This wave of refinancing has bought companies time, but that won’t last indefinitely. The typical high yield bond averages ~5yrs of term, meaning that there is a maturity wall



Source: MacroTourist, Bloomberg

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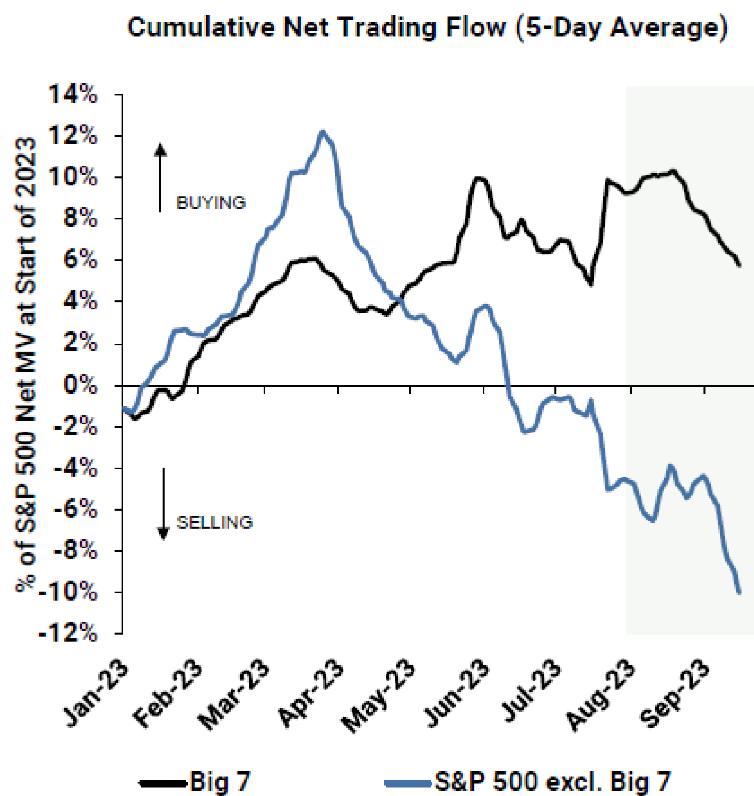
starting in 2025 and peaking in 2026 where all of this low-rate debt will need to be rolled. Given that issuers typically refinanced a year or so in advance, that means issuance should pick up meaningfully next year. In a higher-for-longer world, financing costs for the lower quality part of the corporate market are set to rise rapidly and materially. Its for this reason that we highlight the structure of our EHP Strategic Income Alternative Fund, which is a true long/short bond fund. The shorts that we hold are in meaningfully lower quality bonds with a much higher probability of default. Our longs are higher quality (although with similar yields and duration). In a credit crisis, which may yet follow a "higher-for-longer" interest rate world, our shorts would historically decline much more than our longs, offering a "defensive yield" alternative, and a good complement to funds that take more concentrated credit risk. In addition, the Fund can use duration as a defensive long position if and when it becomes viable to do so. There will be a time for duration again, but it will likely be a source of pain until the Fed finally relents and begins a rate cut cycle. Our approach will ensure that we have that tool in the toolbox, whenever that may be.

The Flow Show

Over the past few years, we've frequently observed how short-term fund flows have significantly influenced price returns, especially in a world where longer term fundamental investors have retreated to the safety of cash, and are less likely to absorb the buying or selling of the large, typically systematic investors. CTAs and hedge funds were both important drivers of the market decline in August and September. After a painful period (for us) of short covering by hedge funds earlier this year, these same funds have returned to the sell side such that net fund flows have turned quite negative, as illustrated in the Goldman chart to the right. September also saw selling in the "Big 7" tech names that have led the market higher. If the fear of a higher-for-longer market is only now hitting the most obvious rate-sensitive sectors like utilities, REITs and Telcos, how long will it be before the pressure rotates to long duration growth stocks which are arguably even more sensitive to higher rates given their high valuations. CTAs systematically cut longs and get short broad markets as trends roll over, and have been whipsawed over and over again in the last few years, often driving the market higher or lower with their flows only to have the trend reverse on them once they are done. Indeed, the price drops in September triggered this feedback loop once more, with CTAs having sold nearly $40 billion of equity indices last week, and set to sell another $65 billion during the first week of October in a flat market, and $86 billion if volatility picks up and prices remain under pressure. Vol Control funds will be next – as volatility picks up, they must sell equities and currently sit at maximum long exposure at $170 billion. They could add another ~$50 billion to the sell pile. After mid-October however, seasonality gets better. Corporates are in blackout until after earnings reports, and will be back in November and December. Mutual Funds with piles of cash may want to put some of that to work before their October year end, and tax loss selling for those funds



Source: Goldman

will finish at the same time. Bottom line – expect a continuation of the rapid switches in trend, chop and volatility in the near term, and hopefully a reprieve into the end of the year.

The flow-driven movements we've outlined above are increasingly characteristic of markets, rather than being anomalies. In fact, there are a number of “new normal” conditions that have changed the way markets act, particularly in the short and medium term, and have “sped up” trend shifts. In part, the fact that the only trend in recent years has been “there is no trend” can be blamed on the tug of war between the Fed and the economy, both during COVID when massive stimulus was added, and now as that same stimulus is being forcefully removed through rate hikes. That said, even after rate hikes are done, we believe a number of changes will be permanent. Zero commission trading, which encourages more frequent trading and shorter hold periods, as well as the “gamification” it encourages, are now likely permanent features of markets. The options market further underscores this trend, with over half of the daily traded volume now expiring on the same day (known as 0DTE). These single-day options are being rolled out to include more ETFs, and then single stocks, encouraging more high-volume, short-term trading. The Fed’s very large balance sheet, and their willingness to use it rapidly (as during the regional banking crisis), also is something that has no choice but to remain with us for many years to come, if not indefinitely. The correlation of stock price moves to Fed liquidity changes has increased over time, and we shouldn’t expect that to change. For our equity long/short Funds, these market changes have made relying on medium term trends to manage risk ineffective, and we have been out of sync with rapid shifts. In addition, we’ve seen multiple rapid short-covering events (junk rallies) as well as rallies in the most expensive stocks (growth rallies) in the face of what would normally be “risk off” events like the bank crisis this past spring. We've consistently maintained that, while we adhere to a process over the long run, if we could find tools that could perform better in the short run, and in particular in the types of markets described above, that we would happily adapt our strategies to take advantage. As of August 1st, we have done just that, by adding the underlying investment strategy within our newer EHP Tactical Growth Alternative Fund as a sleeve in our Advantage, Foundation and Multi-Strategy Funds. We explain more below.

Don't Overlook Your Right Tail Risk...

Before we get to how we are using our new tools, we wanted to touch on one of the risks that advisors now face and how our Tactical Growth strategy can help mitigate it. Since the financial crisis, one of the key roles of alternative funds like ours has been to fill the role of a “bond replacement” that could dampen the volatility in a portfolio that was typically long a lot of equities and underweight bonds due to the low interest rates on offer. Funds often focused on helping hedge the “left tail risk” that was inherent in portfolios during periods like December 2018 and COVID. However, today's landscape presents advisors with a distinctly different risk. Books are now very “cash-heavy”, with as much as 20-25% held in GICs or high interest savings account, often alongside a sizeable allocation to short-term corporate bonds. These make perfect sense, and end clients, tired of the volatility of equity markets, have expressed that they are more than satisfied earning a healthy 5% interest and avoiding the grief inherent in the stock markets. But what if equity markets unexpectedly rally 25% next year? Will that same client be just as happy, and will they remember that it was their own idea to hold so much cash? Every client is different of course, but you can bet that many will look to blame others for letting such easy returns pass them by. So, bond replacement funds have been replaced by bonds themselves. In our opinion, advisors should now be thinking about how they can most effectively capture market upside, without taking on a ton of downside risk if a rally doesn’t materialize. Our EHP Tactical Growth Alternative Fund is designed to do just that. It’s our first Fund that uses “alternative data”, which is a fancy way of saying a collection of real-time sources of information independent from governments and corporations, and including items like satellite data tracking pollutions, shipping, railcars, consumer activity, etc., as well as aggregated credit card purchases data, price and employment data from websites, plane and travel related data, etc. This data is aggregated to create real-time estimates of economic growth and inflation for major economies like the U.S. and China, and is then combined with measures of central bank liquidity changes, to determine whether these economies are growing or shrinking, inflating or deflating. We’ve been amazed at how responsive markets are to these changes, especially for risk assets like cyclical and growth sectors. Equally interesting is that the Fund doesn’t rely on making “style” bets like owning value or growth stocks, but rather

can accommodate either, or none. The cycles move quickly, lasting 2-6 weeks on average, and the approach is far nimbler than using price trends to gear up or down risk. The short version is that as a stand-alone fund, we think it's a valuable contributor to mitigating "right tail risk" given its focus on capturing as much of a market upside move as possible. It also handles slowdowns better than long-only funds by shifting to defensive assets to ride out periods of economic weakness. As a tool to help our existing Funds navigate the "new normal" we described above it meets a few objectives: its not dilutive to returns during periods where our existing Funds work well, but its highly complementary during periods where they historically are challenged – fast changing trends, junk rallies, or growth-at-any-price rallies.

While we adopt a conservative stance and exercise caution when contemplating alterations to time-tested strategies, we feel having access to a new source of data that has already shown its value, and enhances what we already do without harming it if we are wrong about the "new normal", fits well within our prudent approach to adapting to what is in front of us. We're excited about its addition to our existing long/short Funds, and even more excited about what it can do as a stand-alone Fund for you, our clients. We look forward to speaking with you further on it in the coming months.

As always, we deeply value the trust you place in us as custodians of your hard-earned dollars.

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Fund Specific Commentary

Summary of Returns as of September 29, 2023 (F-Class unless otherwise denoted):

Fund	1M	3M	YTD	1YR	3YR	5YR	Inception
Defensive / Conservative Funds:							
EHP Foundation Alternative Fund	-2.5%	-3.0%	-6.7%	-3.1%	-0.6%	0.7%	1.0%
EHP Global Arbitrage Alternative Fund	-1.3%	-1.0%	-1.3%	1.5%	1.1%	3.8%	4.3%
EHP Strategic Income Alternative Fund	-1.0%	-1.1%	0.8%	4.0%			1.0%
EHP Multi-Asset Absolute Return Alt. Fund[1]	-1.2%	0.2%	-3.2%	-6.2%			2.5%
Core / Performance Funds:							
EHP Advantage Alternative Fund	-2.6%	-1.2%	-11.9%	-8.2%	-1.8%	0.9%	0.8%
EHP Select Alternative Fund	0.1%	-2.2%	-11.6%	-6.0%	0.9%	3.4%	2.8%
EHP Tactical Growth Alternative Fund*		Sep 29th NAV: $10.602					
EHP Global Multi-Strategy Alt. Fund[1]	-1.5%	-0.8%	-6.2%	-2.5%			-1.9%
Closed Funds:							
EHP Global ESG Leaders Alternative Fund	0.4%	-2.6%	-1.8%	2.0%			0.6%
EHP Advantage International Alt. Fund	0.4%	-1.8%	-0.5%	1.7%	-2.5%	-0.1%	0.4%

*Under NI 81-102 rules no returns may be shown until 1 year of track record

Defensive / Conservative Funds

<u>EHP Foundation Alternative Fund</u>

The Fund was down -3.0% during the quarter, with losses across strategies, but with Canadian long/short equity performing the worst as dividend paying stocks continued to be under pressure from rising yields, and where short positions were once again whipsawed over the period, providing no protection overall. Credit strategies were similarly whipsawed, with high yield allocations flip-flopping a number of times, only to end the period at the lower end of our risk range. Long bonds, which would typically be used as a flight-to-safety allocation, declined meaningfully during the quarter, down -13.1%, making them unsuitable as a defensive tool. Our newer tactical macro strategy, added at a 10% weight in August, performed well, adding 24bps of positive performance in the two months it was active. At the end of the quarter, equity allocations are once again “risk off”, and credit allocations are sitting in cash.

From a sector perspective, the Fund has net exposure to high dividend paying stocks in materials, health care and communications services, while underweight utilities, staples and discretionary where yields are lower or less sustainable. Notably, real estate has been rising in the ranks as REIT pricing has finally gotten cheap enough, and yields high enough, to warrant a net long allocation. The Fund enters Q4 with our risk signals at the lower end of their ranges, and with an estimated beta to equity markets of approximately zero.

<u>EHP Global Arbitrage Alternative Fund</u>

The Fund was down -1.0% over the quarter as we experienced continued delays and regulatory challenges along with spread widening in deals, although with no major deal breaks (or deal bumps). Notable, the FTC, which has been very aggressive in suing to prevent deals where it believes there is anti-competitive behaviour, has started to lose some of these cases as they progress through the courts. While their ultimately strategy may be to frustrate and delay deals, or cause them to never be announced at all, it appears that their power is being correctly put in check by judges upholding actual competition law, and not the novel interpretations the administration is pursuing.

Merger arb spreads are attractive in our view, with some new and uncomplicated deals offering yields north of 9%, while deals with more risk have much wider spreads. We continue to try to avoid deals with regulatory risk as our odds of being "timed-out", which is a part of our risk process, increases materially. New deal flow has been adequate, but we are mindful of the risk that tightening credit conditions can pose, especially if it results in a recession, and stand ready to decrease merger risk and add defensive treasury duration in that event.

The Fund participated in 60 traditional arbitrage opportunities, and holds 32 positions as of the end of the quarter. SPACs now account for approximately 5.0% of the Fund, and we have been letting our SPAC portfolio roll-off as redemptions occur, as we see better opportunities in traditional merger arbs with wider spreads. The average SPAC common share now trades at a slight premium to NAV, with returns derived entirely from the T-bills held in trust (around 5%), and any upside optionality that comes from a deal that moves the shares above their intrinsic NAV value. In contrast, the average merger spread sits at ~11.5% annualized return, with downside from timing delays and the risk of deal breaks, and further upside from a market recovery that often brings price bumps and competing bids.

EHP Strategic Income Alternative Fund

The Fund was down -1.1% over the quarter, with a mix of returns from the sub-strategies. Our core long/short credit strategy had a 24bps positive contribution (the shorts sold off a lot more than the longs in our larger sectors like Financial Services, Energy, Basic Industry, Insurance), our tactical credit momentum strategy, which mostly held high yield over the period with a number of whipsaws, had a -68bps negative contribution. Risk arbitrage had a 7bps positive contribution. During the third quarter, the high yield market traded in a range, starting at 8.5% level, and ending 37 basis points higher at 8.9%, largely following the move in treasuries.

The Bloomberg Barclays US Aggregate Bond Index was down -3.23% with treasury yields widening, while the Bloomberg Barclays US Corporate High Yield Bond Index was up 0.46% in the third quarter. Within high yield, CCC credits were up 2.7%, B credits +0.9% and BB down -0.4%. The third quarter issuance volume more than doubled year-over-year, pricing almost $40 billion, of which $23 billion was priced in September, as US companies rushed to the debt markets to push off maturity payments, moving now in case the Fed's plan to keep monetary policy tight pushes rates higher. Spreads of investment-grade corporate bonds ended the quarter at 121 basis points over Treasuries, 9 basis points tighter than at the end of 2022. The risk premium on high-yield debt ended the quarter at 394 basis points, 75 basis points tighter than at the end of the prior year. The U.S. 10-year treasury rate ended the quarter at 4.57%, 70 bps wider than at the end of the prior year.

High yield spreads don't appear particularly attractive (most of the time high yield spreads trade in the 300-400 basis points range) but with the all-in yields at 8.9%, high yield will provide attractive returns long term. In the short and medium term, however, we may see some volatility in spreads as more and more companies will have to refinance at higher yields. In that scenario, our basket of short bonds that have a much higher probability of default should offer good protection if current tightening policy will end up triggering a default cycle.

We continued to run our systematic portfolio management process in Q3 albeit at a reduced turnover given the wider bid-ask spreads and implied trading costs. Last quarter's news flows are a testament that while markets seem to want to rally, we are not out of the woods yet and take comfort in our ability to quickly adapt to changing market regimes.

We enter Q4 of 2023 with credit risk at the lower end of its range, with duration of 2.7 and net yield of 6.8% (including the estimated yield from SPACs). The Fund's largest sector exposure is Financials at 26%, including Insurance (but no Banks exposure), followed by Energy at 12%.

EHP Multi-Asset Absolute Return Alternative Fund

The Fund was up 0.2% over the quarter, with gains coming from trend and relative value strategies, while the volatility strategy had a loss.

In commodities, performance was positive for trend and relative value and negative for volatility. In equities, trend and volatility were both negative contributors. In currencies, trend and relative value were both positive contributors to performance. In fixed income, trend was a positive contributor while relative value was negative.

Heading into Q4 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 slightly negative, and 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 short with a relative preference for Japanese and Australian bonds versus British, Canadian, and European bonds. In currencies we favour the value and trend of the EUR and GBP 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 agricultural commodities and energy and shorts across sectors. 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 / Performance Funds

EHP Advantage Alternative Fund

The Fund was down -1.2% during the quarter, with performance mixed across strategies. Long positions in both Canada and the U.S. had moderate losses, but were offset by shorts which offered protection again after a challenging few months of de-grossing and covering from hedge funds. Merger arb strategies lost ground, as did credit strategies, which were whipsawed, with high yield allocations flip-flopping a number of times, only to end the period at the lower end of our risk range. Long bonds, which would typically be used as a flight-to-safety allocation, declined meaningfully during the quarter, down -13.1%, making them unsuitable as a defensive tool. Our newer tactical macro strategy, added at a 20% weight in August, performed well, adding 57bps of positive performance in the two months it was active. At the end of the quarter, equity allocations are once again “risk off”, and credit allocations are sitting in cash.

From a sector perspective, the Fund has net exposure to less expensive stocks in financials, energy, industrials, and materials. More defensive staples have been sold in favour of adding consumer discretionary stocks. The Fund is net short utilities and real estate, where increasing rates are pressuring these sectors that carry higher debt, and where future costs of funding continue to increase. The Fund enters Q4 with our risk signals at the lower end of their ranges, and with an estimated beta to equity markets of approximately 0.3.

EHP Advantage International Alternative Fund

The Fund was down -1.9% during the quarter. The portfolio was fully moved to cash in mid-September, in preparation for the closing of the Fund in November. Whie the performance of the Fund was inline with our expectations in the current market conditions, we have found there has been little demand for an alternative fund that specializes in international stocks only. With a small asset base, the expense burden to the end client is unacceptably high, and we have made the decision to close the Fund, with most clients reallocating to existing, similar strategies.

EHP Select Alternative Fund

The Fund was down -2.2% over the quarter, with losses coming from both long and short positions, although the Fund’s exposure to cheaper energy stocks led to outperformance over the broad TSX Composite Index.

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, industrials, consumer discretionary and materials stocks. We remain short real estate and utilities where increased funding costs are likely to compress future earnings.

EHP Tactical Growth Alternative Fund

The Fund offers a unique approach to macro and growth investing, and is our first to use “alternative” data sources to determine prevailing economic trends that influence securities prices. Investors understand that different macro environments favor certain investments. For instance, rising inflation is generally unfavorable for bonds but can benefit commodities and related stocks. Similarly, slowing economic growth tends to have a negative impact on equities, particularly cyclical ones. The challenge has always been in determining which regime the market is in, and more importantly, where it is going next.

This alternative data we use encompasses real-time indicators like industrial pollution growth rates from satellite images, estimates of manufacturing based on utility outputs, shipping data from major ports, and scraped price data from websites worldwide, among others, and has high historical correlation with actual economic results. By combining this data with indicators like central bank liquidity, credit metrics, and volatility, the fund generates "nowcasts" for growth and inflation, and then dynamically adjusts its asset allocation, favoring growth sectors like Tech, Energy and Materials during "growth on" regimes, and rotating towards defensive assets like treasuries, the U.S. dollar, and volatility during "growth off" regimes.

After a strong Q3, the Fund enters Q4 in a defensive position, as we are seeing weakness in China re-emerge after a short-lived surge in growth, presumably resulting from the moderate stimulus enacted in August. It was fascinating to us to see “peak negative headlines” on China right as their implied growth rate was turning higher again, and to watch risk markets respond in kind in starting in mid-August. That growth surge has now passed, and it will be up to Beijing to find a way to get consumers to start buying again after the two-year funk caused by COVID. U.S. growth is moderate at best through our lens, and not enough to offset a slowing China. More worrying, Fed liquidity has turned negative again as money flows from the banks back into the reverse repo account (draining liquidity), at the same time as treasury issuance steps up (also draining liquidity) and the Fed continues its QT balance sheet reductions (you guessed it – reducing liquidity). Market accidents tend to occur when the Fed is blindly tightening despite slowing economic growth. Inflation is rising again, but mostly from food and energy. It’s not an ideal backdrop for bonds or risk markets given the implication for higher rates, but not yet a problem as long as core inflation remains on the decline which is its path so far. If anything, declining inflation in goods is indicative of weak demand, which will ultimately flow through to further declines in GDP growth.

EHP Global Multi-Strategy Alternative Fund

The Fund was down -0.8% 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 Q3 mixed in terms of our risk ranges, with a blend of strategies reflecting a mix of “risk-on” and “risk-off” markets globally. We enter Q4 in a risk-off position, with a larger allocation to our newer Tactical Growth Fund, with a barbell of positions in Merger Arb and our Strategic Income funds.

Specialty Funds

EHP Global ESG Leaders Alternative Fund

The Fund was down -2.6% during the quarter. The portfolio was fully moved to cash in mid-September, in preparation for the closing of the Fund in November. Whie the performance of the Fund exceeded our expectations since launch and in the context of difficult market conditions, we have found there has been little demand for an alternative fund

that specializes in ESG. With a small asset base, the expense burden to the end client is unacceptably high, and we have made the decision to close the Fund, with most clients reallocating to existing, similar strategies.

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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