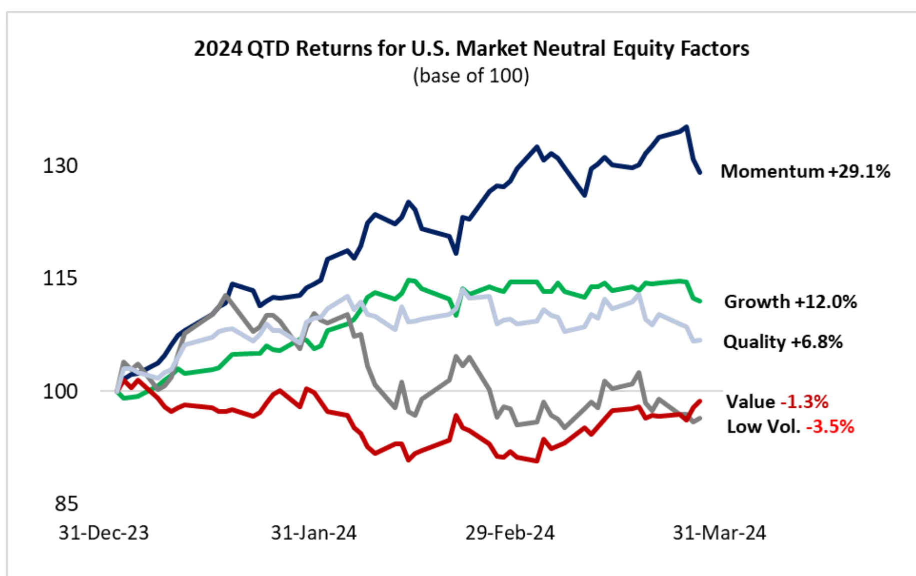
ehp | FUNDS

Q1 2024 Fund Commentary

Equity markets trended higher in March, with the S&P 500 hitting a second straight quarter of double-digit gains, something last seen in 2012, with 40% of all days during the quarter hitting record closing highs, a figure last seen in Q1 of 2013. The 2013 comparison is interesting, as that was a year preceded by a difficult market environment driven by the European debt crisis, but ended with a rebound in markets, and a broadening rally to a diverse set of sectors. We remember it well, not only because it was the year we launched our first long/short strategy, the EHP Advantage Fund, but also because of solid returns that accrued to stock pickers that favoured higher-quality, reasonably priced companies over lower quality speculative ones. It feels as if similar conditions exist today, with early signs of a broadening rally after a period of some of the highest concentration of returns to a small number of stocks in many years. The style factors that were most punishing last year are now leaders, as investors move beyond the worry of a recession, and embrace the evidence that the Fed may have well pulled off a miracle – a soft landing and a robust economy despite the rapid rise in interest rates.

Quant turnaround

2023 saw dismal returns for the investment styles that we favour. All factors were down on a market-neutral basis, with low-volatility the worst at -30.4%, and value the "best" at -18.4%. Only growth made money last year, up 27.7% on a market-neutral basis. The turn of the calendar appeared to flip a switch, however, and we are seeing a reversal to start 2024. As seen in the chart to the right, Q1 returns were led by momentum, with stocks already in an uptrend continuing their move higher. Growth stocks were still strong, but high-quality stocks finally started to perform after four straight down years for the style. Historically, these factor cycles tend to run in cycles, and we are optimistic that we are at the start of a longer run that coincides with an overall "normalization" of the economy after a very strange post-Covid period. If true, and as economic growth broadens out and earnings recover not just for a chosen few, we should see a rotation to the basket of cheaper stocks that will look even cheaper as their cash flows improve. If earnings growth becomes less scarce, investors won't feel obligated to crowd into the few that have it, and factors like value and quality should once again outperform growth.

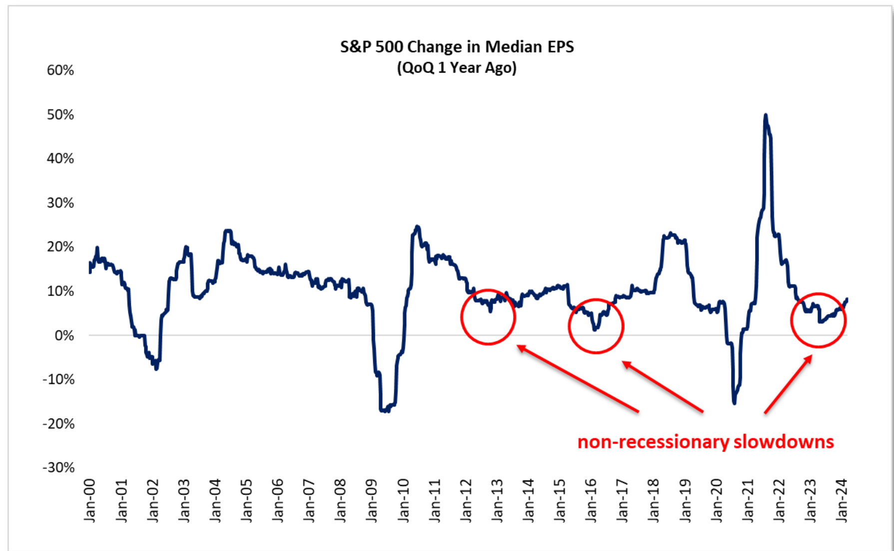


Source: Morgan Stanley

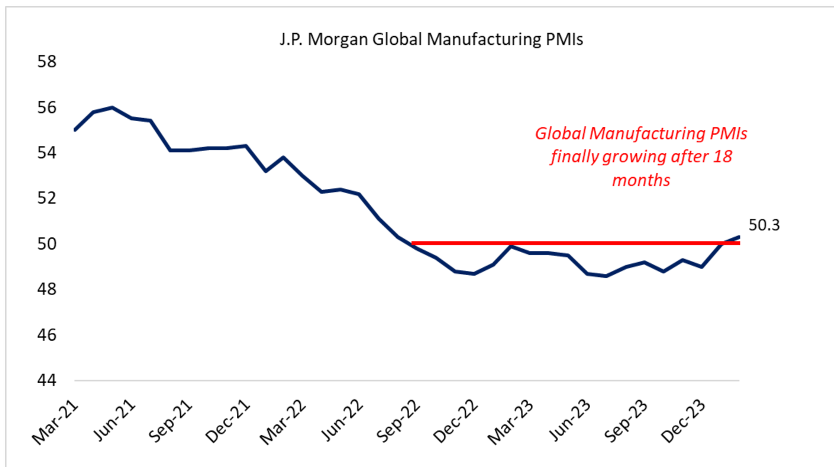
A re-acceleration in economic growth

There are a number of green shoots emerging across global economies that suggest that we are on a path to normalization after what we think will ultimately be described as a "growth scare" and not a warm-up to recession. So far, the rebound is showing up in soft survey data (PMIs) more than hard economic data, with the U.S. being the exception where actual GDP growth is quite robust. Corporate earnings growth has been heavily skewed to the handful of A.I. beneficiaries, with the Magnificent 7 profits up 29% in 2023 compared to profits contracting 4.8% in the rest of the S&P 500. But that tide is turning. We like to track the median change in YoY quarterly earnings to get a broader picture that ignores market cap and can illustrate how the "typical" company is doing. In the chart below, we can see

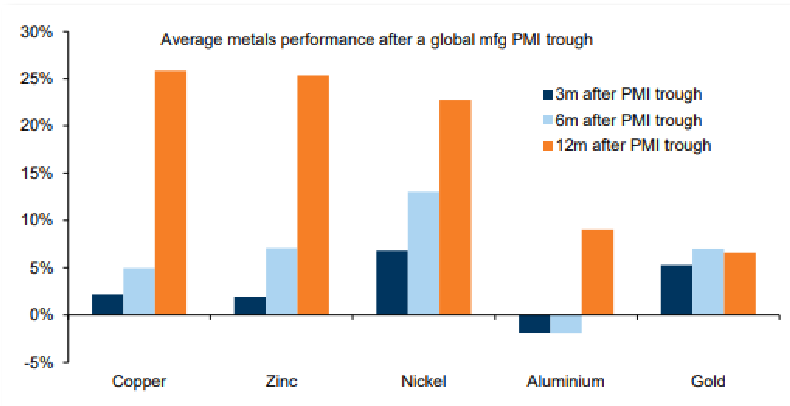
that this measure is turning higher, and more importantly never actually went negative. In other words, while there was a huge slowdown in earnings from 2021 levels, the average company never lost money. This cycle is ultimately looking a lot more like other non-recessionary slowdowns seen in 2011/12 and 2015/2016. In both cases, markets saw robust and often cyclically focused rallies as earnings returned more broadly. Further to this idea that a broadening is in the cards, global manufacturing PMIs have moved about 50 (i.e., the level that denotes expansion) for the first time in 18 months (see chart below). Granted, this is again survey data rather than hard data, and purchasing managers can be influenced, just like the rest of us, by recent price action in risk assets. While the broad economy never hit a recession, we've highlighted in prior notes that certain parts of the market, specifically more economically cyclical businesses in materials, energy, financial and industrials, have been priced as if they have been in one, and a turn higher in manufacturing is critical to the view that we are likely to see a continued rotation to these parts of the market. In our "nowcast" data, which attempts to use a broad array of alternative datapoints like shipping data, credit card spend, consumer sentiment, job board postings, satellite images of industrial pollution, etc., we have been noting that there has been pronounced strength in the U.S., specifically, with robust growth that is actually at odds with other important economies like China (more on that later). When manufacturing PMIs do turn higher after a period of contraction, as is the case today (assuming recent trends persist), industrial metals tend to have strong returns, with copper, zinc and nickel rallying 25% on average over the 12 months following a PMI trough (chart on the right). Given the general under-investment in new mines over the last decade, and the expectation that copper production will be in deficit in coming years, it would not be surprising



Source: Capital IQ



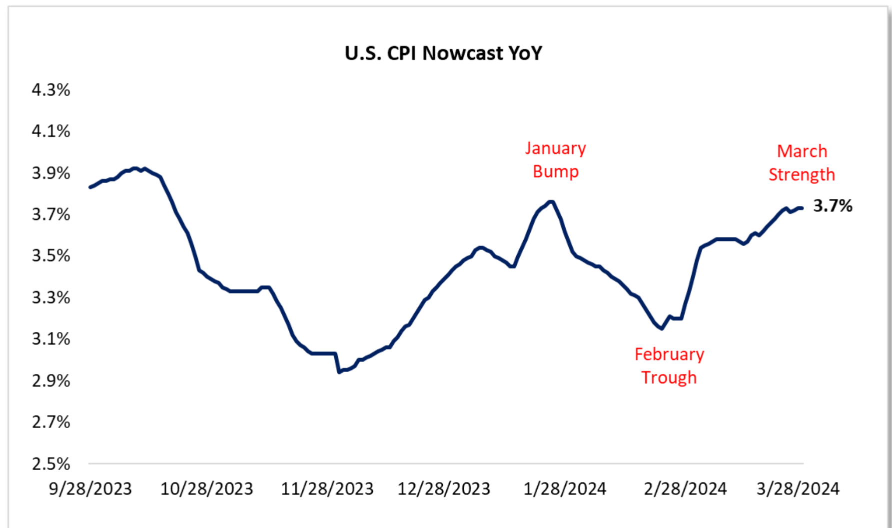
Source: JP Morgan, S&P Global



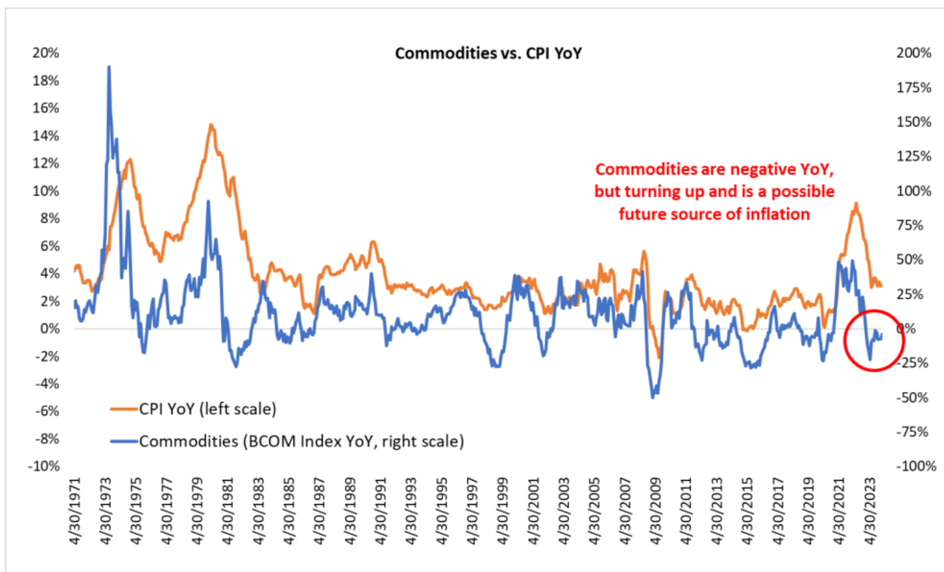
to see another resource cycle play out after a long period of lacklustre performance and false starts. In this environment of a broader rally biased to cyclicals (and not only tech), the TSX Composite could actually outperform the S&P 500, something it has only been able to do once out of the last 13 years.

It's not dead, it's resting…

One of the key elements to a normalization of markets and interest rates is an inflation picture that is under control. We look forward to the good old days when the inflation report is as ignored as it was for the decade before the pandemic, but for now we have to contend with each report being a potentially market-moving event. Bond markets started the year discounting six interest-rate cuts from the Fed in 2024, with the first starting as early as March. We, along with many others, pushed back on this notion, and suspected it had as much to do with the aggressive short covering of bond positions in Q4, as opposed to the actual consensus belief on the path of rates. In February, however, we've had to contend with a rise in inflation again, just as things were looking to be under control. So, should we be worried? We think the answer is a rather indecisive "not yet", and we say that because in our nowcast macro data, we saw the same January bump (chart below), only to see inflation fall back again in February. March, however, has seen the return of a rise in headline inflation again, and coupled with some strong PMI data, the markets are clearly getting nervous, with a June cut now only a 50/50 probability, and just two cuts now priced in for the year, lower than the Fed's own guidance of three. The source of this inflation is almost entirely from food and energy, with core goods still in a downtrend, and services flat. The more volatile food and inflation components have less of an impact on the core measures that the Fed favours, and so for now we think the market is again overreacting to recent data, but in the opposite direction as the start of the year. It does seem that the Fed (and Powell specifically) wants to get an "adjustment" cut in the books soon as he alluded to in his last press conference. While political / election considerations have been floated as a possible reason why, we think it has more to do with the general state of liquidity at the banks, as well as the upcoming need to refinance both corporate and government debt (more on this later).



Source: EHP Funds

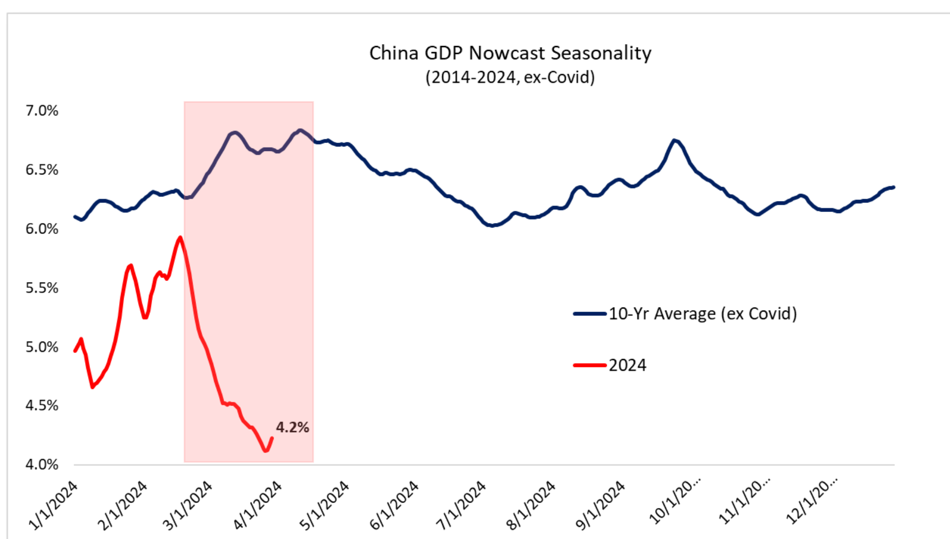


Source: BLS, Bloomberg

There is a fairly vocal argument that the Fed is about to make another major policy mistake, and is set to cut rates in the face of what will become a sharp rise in inflation again, much like the environment that led to the stagflation of the 1970s and early ‘80s. One of the key things we’ll be watching, other than the nowcast data we mentioned earlier, is commodity markets. Commodities do explain as much as half of the movements in inflation and tend to lead inflation by about 6 months on average. Here again, we aren’t worried “yet”, as commodities on a rolling year-over-year basis are only now approaching a positive return (chart on prior page). We’ve seen some pretty spectacular rises in niche segments of the market (just take a look at a 1-year cocoa chart), but it is not yet pervasive enough to be considered a major threat to the overall path of inflation.

China still stuck in the mud

For those who receive our semi-regular updates on the macro drivers of our tactical growth strategy (let us know if you want to be added), you’ll be familiar with the chart to the right as it has been a key source of confusion for us as well as concern for the prospect that we are in a healthy, global upturn off the lows of the last few years. China is the second largest economy in the world and remains stuck in the mud after emerging from their extended Covid quarantine only a year ago. Typically, we would expect to see strength in China economic data at the start of year and especially after their lunar holiday when they often restock on commodities. This period of strength dovetails well with the typical seasonal strength in energy and materials stocks in the spring. This year, however, has been the opposite, with a rather pronounced slow down in the real-time data that we track. Consumer spending remains recessionary, and inflation has been on either side of zero as business inventory and housing prices try to find a clearing price at lower levels. The government, one of the only in the world to not directly support their population with stimulus payments to stoke demand, seems unwilling to pursue the same “moral hazard” that western governments now embrace as basic policy. One bright spot is the soft survey data, which is showing unexpected signs of strength, and we hope that the very recent upturn off the lows we are seeing might imply that their seasonal period of strength is delayed, but not extinguished. For our thesis of a broadening market that favours cyclicals in widespread economic growth, we think it is necessary for China to participate in the upswing. In recent years where China didn’t have rising growth in the spring (2023, and 2017), energy and materials sectors had losses in April. For those that wonder why we care so much about China at all, here is the data. The charts below show the average daily performance of cyclical sectors (using the XLE energy ETF and the XME metals and mining ETF as proxies) during all days over the last 10 years, compared to days when Chinese growth is rising or falling. The results suggest that the time to own resource sectors is when China is growing, and when they are slowing, you want to avoid or short commodity stocks. As “cyclicals” this relationship inherently makes sense to us, but it’s important to note just how much that cycle has been tied to China over the last decade. It’s of course possible that the resource cycle can decouple from China, with the U.S. and rest of world driving enough demand for a cycle without them, but for now our process sticks



Source: EHP Funds

XLE Average Daily Returns		
All Days	China On	China Off
0.02%	0.13%	-0.13%

XME Average Daily Returns		
All Days	China On	China Off
0.03%	0.19%	-0.16%

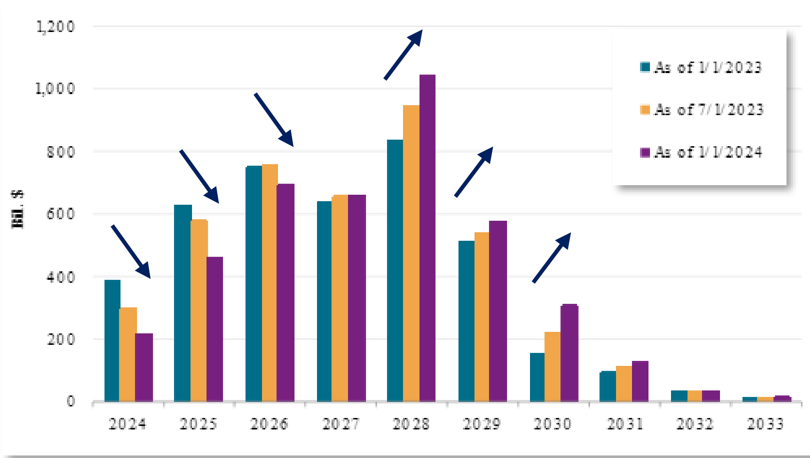
Source: Bloomberg, EHP Funds

to the odds that this is unlikely to be true, and we watch patiently for an uptick in the data to back our overall thesis of global recovery.

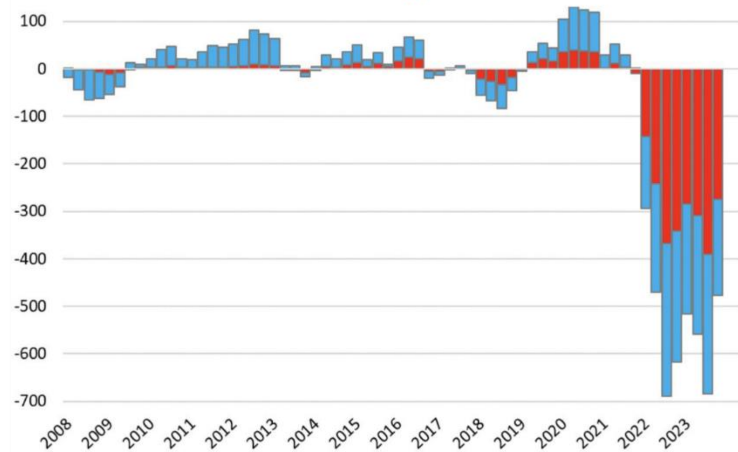
The refinancing cliff looms – or does it?

At some point during every credit cycle, a concern is raised about a "maturity wall" that represents the point where the current tenor of debt reaches its peak dollar amount and must be rolled over to avoid disrupting the economy and causing a credit crunch or recession. We ourselves noted about a year ago that the regional bank crisis might be the first leg of a more serious credit event, much like the mortgage fund failures in 2007 preceded the bank failures of the great financial crisis in 2008. We also noted, however, that the absolute yields on bonds in general, and in high yield bonds in particular, were attractive enough to attract continued fund flows for those seeking yield, and that companies would be taking advantage of this throughout 2024. The chart to the left shows the progress made in 2023 alone in pushing out that refinancing cliff, with more than $300 Billion of high yield debt moving from a 2024/2025 repayment date out to 2028 or beyond. That number will have improved further in Q1, meaning the theoretical risk of a credit event caused by an inability to refinance looks to be overdone. Further, about 50% of current high yield debt is floating rate, meaning that half of the firms are at peak interest rate costs right now and have been for some time. Their prospects will improve if the Fed cuts rates as expected. Of course, that won't be true if rates don't decline this year, and we think it's one of the reasons the Fed seems determined to start cutting sooner rather than later, and is guiding us to ignore the choppiness in recent inflation data. The other key reason, in our view, is that of bank liquidity, which has by no means been solved as evidenced by the recent failure of New York Community Bancorp (NYCB). NYCB, which was one of the rescue buyers of assets of failed Signature Bank (SB) a year ago, absorbed most of SB's deposits and $13B in loans, but ultimately needed rescuing themselves after failing to sell a portfolio of distressed residential loans and slashing its dividend. The stock, which traded as high as $14/share in June, was bought by a group led by none other than former Treasury Secretary Steve Mnuchin, buying 42% (fully diluted) for $2/share. It's clear that a cheap source of new deposits hasn't miraculous appeared for the regional banks, and that their workout of commercial real estate loans is nowhere near resolved. Further, despite a rally in bonds off the lows, the banks still have a large dollar amount of underwater holdings (chart to the right). While $500 billion of losses is certainly better than $700 billion, it

Global High Yield Non-Bank Corporate Maturity Wall



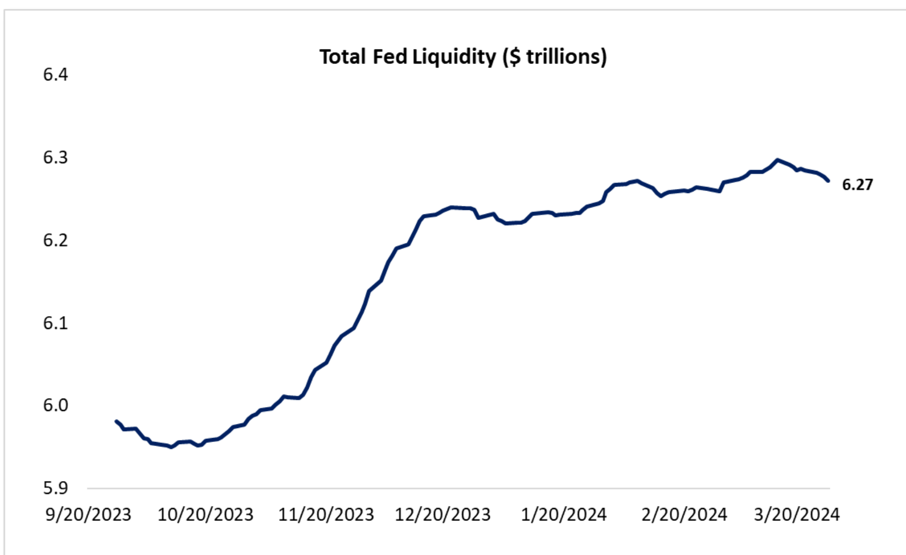
Source: S&P Global Credit Ratings



Source: FDIC, Wolfstreet.com

will take lower rates to reprice these portfolios higher, as well as help find a floor for distressed real estate loans and pressure on deposits that continue to plague them.

So, we think a part of the Fed's desire to cut rates, if even by just a little bit, is being driven by their acute awareness of these problems under the surface. Powell himself said the quiet part out loud at his recent press conference, implying that they made a mistake in 2018 when they tightened liquidity too much, causing a scarcity of reserves at the banks, and seizing the credit markets. They put their tail between their legs and reversed course in early 2019, and they want to avoid a similar event this time around. We monitor total fed liquidity as a key metric in our macro data, and there are emerging pressures as we've noted in recent notes. In the chart to the left, total Fed liquidity rose by approximately $250 billion in November and December of last year, coinciding with the "Powell Pivot" and a massive rally in risk. Since then, it has flatlined and is turning lower, as the pace of the decline in excess reserves in the reverse repo accounts slows, and as tax bills are paid and flow out of the economy and into the treasury general account. But how does Fed liquidity actually affect the economy and stocks? Again, we present the data, showing daily returns for the last 10 years for all trading days, and then again for days where Fed liquidity is rising or falling. In this case, the more speculative or growth-dependent parts of the market are the ones that respond most closely to shifts in liquidity. Whether this is actually a direct economic impact, influencing how much credit banks extend or retract to borrowers, or one that is more akin to a visual representation of the "Fed put" in action, driving investor willingness to buy risk assets, it's clear that for our ETF proxies for growth sectors (QQQ and SMH), the money has been made when the Fed is providing liquidity, and not when the support is declining. This relationship has also become stronger post Covid, arguably as the Fed's balance sheet has grown both in its size and its importance, and we don't see this ending anytime soon. We're long past the years where the economy can act independent of Fed actions, and given the speed and willingness of central banks around the world to act when called upon, it is worth watching what they are actually doing as it relates to liquidity and not just what they are saying as it relates to policy.



Source: Federal Reserve, EHP Funds

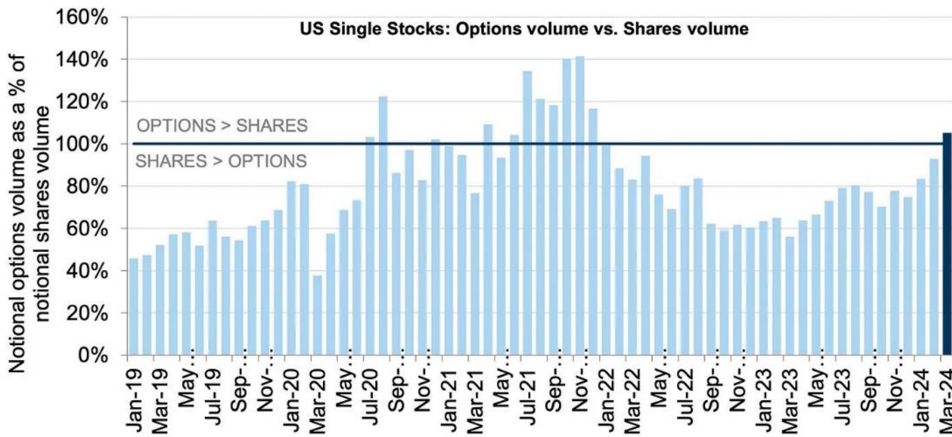
QQQ Average Daily Returns		
All Days	Fed Liq Rising	Fed Liq Falling
0.07%	0.12%	-0.01%

SMH Average Daily Returns		
All Days	Fed Liq Rising	Fed Liq Falling
0.10%	0.16%	0.00%

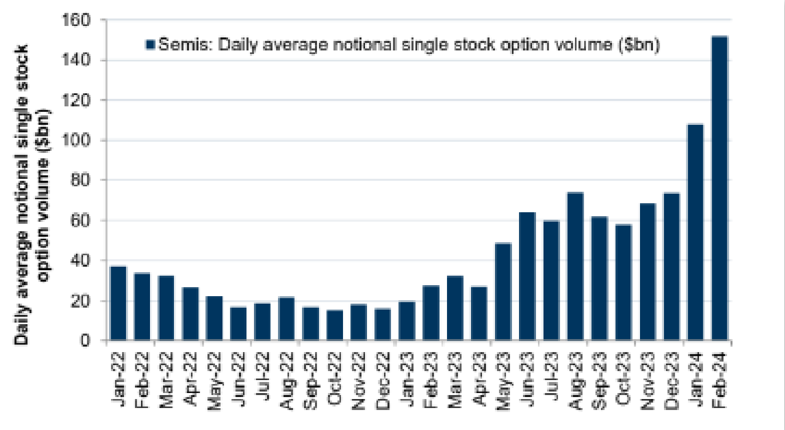
A word on speculation

We've noted over the years the remarkable shift in the options market to one that is increasingly focused on the short-term. Routinely, more than half of every option traded on any given day expires on the same day at 4pm. These options, known as zero-day-to-expiry (0DTEs) have changed the functioning of markets intraday, compressing volatility, and we suspect are heavily used by both traditional and multi-manager hedge funds as an efficient way of hedging large dollar amounts of risk for a comparatively small cost. We have found them useful ourselves, especially during "event days" like a Fed meeting, where market volatility can suddenly expand, and flows can turn aggressively positive or negative in a very short time frame. We've come around to the view that 0DTE options are actually much more of a risk-hedging, institutional product than one used for retail speculation. That said, we do also pay attention to retail speculation, as it

can coincide with periods where low quality stocks, ones that we are typically short in our equity strategies, suddenly take off despite having terrible fundamentals and slim business prospects. The "meme" rallies that peaked in 2021 are a lesson many long/short hedge funds are wise not to forget. It appears that animal spirits are back at it, with another huge rally in bitcoin and other crypto assets (thanks in part to the SEC blessing the first true bitcoin ETFs in the U.S.), and evidence of growing speculation in more traditional equity markets. The notional value traded for single stock options once again surpassed that of the underlying stocks themselves for the first time since 2021, reinforcing our view that in many ways the options tail wags the market dog, and not the other way around. Remarkably, 42% of all single stock volume in February was tied to the red-hot semiconductor sector, despite those stocks accounting for only 10% of the index. We continue to view options as both a useful tool for hedging risk, as well as a potential risk to markets given their popularity and the structural risks they can create when the dealers that sell these options are all forced to hedge them at the same time, and in the same direction.



Source: Goldman Sachs, OptionMetrics



Source: Goldman Sachs, Factset

Onwards

As always, we thank you for entrusting us with your and your client's hard-earned dollars and wish you the best. We're excited about the prospects for the burgeoning recovery, and how we might take advantage of it for our clients. Markets are ever changing, and often the least expected path becomes the most likely one. We remain disciplined in our process for managing risk, but always open-minded to what might come next.

ehp | FUNDS

Fund Specific Commentary

Summary of Returns as of March 28, 2024 (F-Class unless otherwise denoted):

Fund	1M	3M	YTD	1YR	3YR	5YR	Inception
Defensive / Conservative Funds:							
EHP Foundation Alternative Fund	1.7%	2.5%	2.5%	0.6%	-0.8%	1.2%	1.9%
EHP Global Arbitrage Alternative Fund	1.4%	1.3%	1.3%	-3.8%	-0.9%	2.2%	3.9%
EHP Strategic Income Alternative Fund	1.1%	2.4%	2.4%	6.6%			3.4%
EHP Multi-Asset Absolute Return Alt. Fund[1]	2.5%	-2.1%	-2.1%	-5.0%			-0.1%
Core / Performance Funds:							
EHP Advantage Alternative Fund	1.6%	9.3%	9.3%	2.6%	-0.4%	2.1%	2.4%
EHP Select Alternative Fund	-0.6%	3.7%	3.7%	-6.8%	-8.4%	2.6%	2.8%
EHP Global Multi-Strategy Alt. Fund[1]	1.5%	6.7%	6.7%	5.4%	0.2%		1.6%
EHP Tactical Growth Alternative Fund*	Mar 28th NAV: $11.7240 + $0.99068 distribution reinvestment						

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

Defensive / Conservative Funds

EHP Foundation Alternative Fund

The Fund was up 2.5% during the quarter, with gains across all strategies, with U.S. long/short equity a stand-out with positive returns from both longs and shorts, despite the very healthy index rally. Canadian equities added value as a broadening rally saw dividend-paying long positions move higher, although partially offset by shorts. Our allocation to our tactical growth strategy added 108bps. Credit Momentum was relatively flat as high yield credit paused after a very strong finish to 2023, and a move higher in rates pressured bonds overall, with the Bloomberg Barclays Aggregate Bond Index declining just under 1% for the period.

The Fund has net exposure to high dividend-paying stocks in materials, industrials, health care and financial sectors, while underweight and defensive staples, telcos and utilities where yields are lower or less likely to grow. A pick up in economic growth should help the more cyclical businesses we own and allow them to grow dividends after a period of consolidation. At the end of the quarter, equity allocations are “risk on” in both Canada and the U.S, and our Credit strategy is allocated to high-yield debt.

EHP Global Arbitrage Alternative Fund

The Fund was up 1.3% over the quarter. Arb spreads widened slightly over the period, although some of that can be explained by a fair number of deals closing, leaving deals with longer time-to-close or wider spreads with higher weights dragging up the average spread. Spreads remain healthy at ~12% annualized, but with a continued bifurcation between uncomplicated deals trading in the 7-8% range and deals with regulatory or other risks trading wider. The FTC's aggressive stance in suing to prevent deals has been moderated by court decisions upholding actual competition law, but avoiding long timelines and regulatory reviews is still critical to avoid potential deal breaks in our view.

Deal volume has picked up after a slow period, leaving us with enough deals to be fully invested. The recent pick up in interest rates doesn’t appear to be deterring private equity and strategic buyers from pursuing mergers, likely looking beyond the next few months and onto the next few years where rates are likely to decline from here. We are optimistic that a fall in rates and the emerging “soft landing” will encourage a wave of consolidation, opening up opportunities for the Fund.

One of the other factors favouring arbitrage during economic expansions is the prospect for an increase in deal “bumps” or competing bids given that rising markets tend to make the original deal price look too cheap, and sellers either demand more, or other buyers see an opportunity to bid. We experienced two such events during the quarter, with Thomas Bravo (private equity) boosting the deal price on Everbridge (EVBG) from $28.60 to $35 per share after receiving third party bids during the “go-shop”. While it’s likely the end of the behind-the-scenes bidding war for EVBG, its indicative of our suggestion that the tide has turned from a buyers market to a sellers market for mergers, with pressure on buyers to pay up on previously announced deals as equity markets improve overall. In addition, we saw a competing bid for Osino Resources, a small gold producer in Africa, with Yintai Gold topping Dundee Precious Metals. With gold prices breaking out, and the sector in a constant state of consolidation, we should expect to see more deals in the space in coming quarters.

The Fund participated in 45 traditional arbitrage opportunities during the quarter, holding 23 positions as of the end of the quarter. SPACs and pre-conversion SPAC warrants account for approximately 2.5% of the Fund (although only 0.6% after accounting for positions to be tendered for cash), as we continue to let our SPAC portfolio roll off with redemptions. The average SPAC common share trades at a very slight discount to NAV, with returns derived from the T-bills held in trust (around 5%) and any upside optionality from deals that move the shares above their intrinsic NAV value. We have noticed a pickup in the activity on more speculative SPAC warrants, and our residual portfolio of pre- and post-conversion warrants added 60bps during the quarter. We are taking advantage of this strength to sell down the approximately 1% exposure to these warrants.

<u>EHP Strategic Income Alternative Fund</u>

The high yield market took a breather in January but picked up in March, posting a total return of 1.5% in Q1. The Fund posted stronger returns at 2.4% , with all sub-strategies having positive contributions. Core long/short credit had a +183bps positive contribution (with longs continuing to outperform shorts), credit momentum had a +39bps contribution, while our risk arbitrage allocation added gains as well. Financials and insurance sectors had a +108bps contribution (driven by a combination of bond selection overweighted positioning), followed by utilities at +34 bps.

Credit markets returns were mixed in Q1, with treasuries widening again, resulting in a negative impact on investment grade bonds, while high yield was buffered against rising rates due to its higher starting spreads. High yield was up 1.5% while the Bloomberg Barclays US Aggregate Bond Index was down -78bps. Within high yield, lower quality CCC credits were up 3.3%, while B credits finished up 1.5% and BB up 1.2%.

In Q1, a steady economy, easing financial conditions, lower default rates, and expectations for a soft landing spurred a surge in market issuances. U.S. borrowers raised nearly $27 billion in March, up from $5 billion the previous year, bringing the first quarter total to $85 billion - the most active start to any year since 2021. With investors eager for new opportunities and flush with cash, demand for new bonds soared, with deals being oversubscribed by an average of four times and pricing favorably.

Spreads of investment-grade corporate bonds ended the quarter at 90 basis points over Treasuries, 9 basis points tighter than at the end of 2023. The risk premium on high-yield debt ended the quarter at 299 basis points, 24 basis points tighter than at the end of the year, despite the U.S. 10yr rate ending the quarter at 4.2%, 32bps wider than at the end of 2023.

At 299bps, high yield spreads are at the tighter end historically (most of the time high yield spreads trade in the 300-400 basis points range), but with the all-in yields at 7.7% high yield will continue to provide attractive returns. The cure for tight high yield spreads can very well be a tightening of treasury rates, not necessarily a sell-off in high yield, and the expectation is that interest rates will go down in medium-term. With that said, we note that at these levels, the high yield market is more vulnerable to some weakness than it was in the last few quarters.

We continued to run our systematic portfolio management process in Q1 albeit at a still reduced churn given the wider bid-ask spreads and implied trading costs. High yield market sentiment was positive during the quarter, and we were positioned correctly, but as always we take comfort in our ability to quickly adapt to changing market regimes when they may occur. Our basket of short bonds underperformed longs while continuing to carry a "probability of default" of nearly 10x higher than our longs. Our shorts fulfill a dual role of both downside protection in high default rates regimes (the put option role) as well as return enhancement in all regimes.

We enter Q2 with credit risk at the higher end of its range, with duration of 3.0 and net yield of 7.2%. The Fund's largest sector exposure continues to be non-bank financials at 30.5%, followed by energy at 8%.

EHP Multi-Asset Absolute Return Alternative Fund

The Fund was down 2.1% over the quarter, with losses coming from relative value and volatility strategies, while the trend strategy produced gains.

In commodities, relative value was a negative contributor to performance earlier in the quarter, as some agricultural commodity curves shifted significantly due to the effects of extreme drought and disease. Commodity trend and volatility were small negative contributors for the quarter. In equities, trend was a positive contributor to performance while volatility was negative. In currencies, trend was a positive contributor while relative value was a negative contributor. In fixed income, trend was positive while relative value was negative.

Heading into Q2 of 2024, we are well positioned to provide an active hedge against volatile environments caused by inflation or recession fears and diversifying absolute returns to replace equity and bonds in a portfolio. Equity positioning is currently slightly positive, 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 long with a relative preference for U.S., Canadian and UK bonds versus Japanese, Australian, and European bonds. In currencies we favour the value and trend of the EUR and AUD versus USD, CAD, and JPY. Commodity trend and relative value currently favour the long end of curves over short, with relative value positioning providing continued active inflation protection. 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, geopolitical tensions and otherwise.

Core / Performance Funds

EHP Advantage Alternative Fund

The Fund was up 9.3% during the quarter, with the highest contribution from our U.S. long/short equity strategy where we saw a complete reversal of last year's punishing underperformance in high quality, high momentum stocks. This quarter, returns were led by stocks already in an uptrend, with a distinct bias to quality over junk. Short positions detracted from returns but in a much smaller magnitude than Q4 of last year. The allocation to our tactical macro strategy, with a 20% weight, added 238bps of performance during the quarter. Credit Momentum was relatively flat as high yield credit paused after a very strong finish to 2023, and a move higher in rates pressured bonds overall, with the Bloomberg Barclays Aggregate Bond Index declining just under 1% for the period.

From a sector perspective, the Fund has net exposure to less expensive, more cyclical stocks in materials, industrials, and financial sectors, in addition to high quality technology. The Fund remains underweight defensive staples, healthcare and telcos, and net short select REITs where cash flows are constrained, or refinancing risk is a concern as well as utilities. At the end of the quarter, equity allocations are "risk on" in both Canada and the U.S.

EHP Select Alternative Fund

The Fund was up 3.7% over the quarter, with gains on both longs and shorts despite a healthy market rally that saw the S&P TSX Composite rise 6.6% over the quarter. Higher quality, trending stocks led gains overall as the market rally

broadened, a trend we expect to see continue if the recent strength in economic data continues. Commodities are starting to rise again, which should benefit the resource-heavy TSX if recent trends are sustainable.

The Fund is biased towards buying higher quality, cheaper stocks, and as such, the portfolio is holding very cheap companies overall with strong balance sheets. The Fund is well positioned for a cyclical recovery, with exposure in materials, energy, industrials, and financials, balanced by safer, more defensive consumer staples. We remain short in real estate and utilities sectors 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 utilize “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 negatively impact equities, particularly cyclical ones. The challenge has always been in determining which regime the market is in, and more importantly, where it is heading 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. This data has shown a high historical correlation with actual economic results. By combining this "nowcast" data for growth and inflation with indicators like central bank liquidity, investor positioning, and volatility, the Fund dynamically adjusts its asset allocation to best fit the regime. It favors growth sectors like Tech, Energy, and Materials during "growth on" regimes, and rotates towards defensive assets like treasuries, the U.S. dollar, and volatility during "growth off" regimes.

While the Fund is relatively new, we have growing confidence in the efficacy of the alternative data indicators we are tracking. We are expanding the set of available indicators in the coming year, with early work on aggregate fund flows and investor crowding – factors that we frequently discuss as being drivers of short-term returns, showing promise. Given the large number of alternative datasets available (over 3000 at last count), we expect it will be a key focus of our research for some time. Additionally, we continue to refine our use of short-term options (days to weeks) to “collar” the range of outcomes in the Fund as markets approach key levels, either to the upside or downside.

As we enter Q2, the Fund is neutral in terms of risk, with weakness in China and worsening Fed liquidity driving that cautiousness, although the U.S. remains strong both in soft survey data and in our nowcasts. China is the wildcard here – they typically have seasonal strength in March that hasn’t materialized this year, although its possible that real-time strength may follow some signs of buying on their part in industrial metals, gold and crude. Higher beta stocks are starting to outperform tech stocks which along with semi-conductors had led the rally. This broadening out of the rally is a healthy sign in our view and we expect that the next leg of gains may be led by a different cohort of stocks other than just the “Mag 7” giants.

EHP Global Multi-Strategy Alternative Fund

The Fund was up 6.7% for the quarter. Operating as a “fund of funds”, the Fund holds interests in a number of our EHP alternative mutual funds, employing a tactical approach to rotating assets into more defensive strategies as market volatility increases and our risk triggers are hit. The Fund entered Q1 in a risk-on position, with a larger allocation to our newer EHP Tactical Growth Alternative Fund. This was complemented by a barbell of positions in Merger Arbitrage and our Strategic Income funds, mixed in terms of our risk ranges. The Tactical Growth allocation was responsible for the largest portion of the quarter's returns, followed by the EHP Advantage allocation. None of the underlying funds had negative returns during the quarter.

As we enter Q2, the Fund maintains similar fund-level weights but with their respective underlying strategies now more mixed in terms of their risk position, with equity and credit long/short funds risk on, and Tactical Growth neutral. This shift reflects our assessment of the current market environment and our outlook for the upcoming period. By balancing the various strategies and maintaining a flexible approach, the Fund aims to capitalize on market movements while mitigating risks associated with market volatility.

The Fund's ability to dynamically adjust allocations across different investment strategies within our family of funds allows for a responsive approach to changing market conditions. Our emphasis remains on identifying and exploiting opportunities across various sectors and asset classes, while also taking a cautious approach towards managing risk. As market conditions evolve, we will continue to adjust our strategies to align with our market outlook and risk assessment, always with the goal of maximizing returns for our investors.

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.

This material may contain "forward-looking information" that is not purely historical in nature. These forward-looking statements are based upon the reasonable beliefs of EHP Funds as of the date they are made. EHP Funds assumes no duty, and does not undertake, to update any forward-looking statement. Forward-looking statements are not guarantees of future performance, are subject to numerous assumptions, and involve inherent risks and uncertainties about general economic factors which change over time. There is no guarantee that any forward-looking statements will come to pass. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made.

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.

Contact Us Toll Free: 1.833.360.3100 Email: info@ehpartners.com www.ehpfunds.com