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Q4 2021 Fund Commentary

The year certainly ended on an upswing for markets, despite numerous headwinds including the highly contagious Omicron variant, confirmation from the Fed that they would begin to taper and then raise interest rates, the failure to pass the "build-back-better" stimulus bill in the U.S (at least for now), and what can only be described as a crash in the most speculative parts of the market that had been stellar performers earlier in the year. U.S. markets led the world yet again, with the S&P 500 up 11% in Q4, the TSX returning a healthy 6.5%, while the EAFE Index meaningfully lagged, up "only" 3.9%. One thing that became evident by the end of the quarter was that the market may have finally disconnected from the "COVID headline roulette" that we've been playing for the last two years, with lurches higher for every new drug approval, and sell-offs for every new variant. Omicron is different, and the data is clear. This variant is highly contagious but relatively mild, and it is now almost certain that herd immunity will take hold over the next few months. Market participants have figured this out, and the latter half of December saw a rotation away from stay-at-home and expensive growth stocks, and into more cyclical value stocks linked to the economic growth that likely follows this final wave. COVID may be with us forever, but we expect lockdowns, passports and masks won't be after Omicron. So, with that as our backdrop, how are markets set up and where are dollars likely to flow?

Despite some of the recent rotation from growth to value, there remains a large disconnect, in our opinion, between these two parts of the market, with some historically expensive stocks in the growth bucket, and historically cheap stocks in the cyclical value bucket. Taking a closer look at the "reopening" value equities, we think it's important to distinguish between two types of value stocks: those that needed to take on meaningful amounts of debt to stay afloat, like airlines, cruise lines and cinemas, and those that actually benefitted from rising prices associated with the pandemic, like forestry, energy, and steel companies. We might argue that these represent the divide between "deep" value and the "quality" value that we prefer. While these two cohorts have had very different share price returns over the pandemic, it's even more remarkable where they sit today from a multiple of enterprise value. The chart below illustrates the point:

	Pre-Pandemic	Today	Change
Air Canada			
Share Price	$ 48.51	$ 21.12	-56%
Fwd EBITDA	$ 3.63 B	$ 2.03 B	-44%
Enterprise Value	$ 16.2 B	$ 16.2 B	0%
EV/EBITDA	4.5 x	8.0 x	78%
West Fraser			
Share Price	$ 57.28	$ 120.68	111%
Fwd EBITDA	$ 1.0 B	$ 2.25 B	125%
Enterprise Value	$ 3.8 B	$ 7.4 B	95%
EV/EBITDA	3.8 x	3.3 x	-13%

Source: Bloomberg

In the case of Air Canada, since the start of 2020, the share price has declined by 56%, making it ostensibly "cheap", but the problem is that the enterprise value of the business is virtually identical to what it was prior to the pandemic. In other words, they've levered up the balance sheet in order to survive, shifting capital from the equity holders to the debt holders. We don't fault them for this of course, but the problem as an investor is that you're actually paying a *higher* multiple on expected EBITDA than prior to COVID, despite the fact (as management themselves has guided) that while recreational travel should improve quickly, business travel may take years to recover if the "virtual" meeting becomes the standard as we suspect corporate expense managers would love. In contrast, West Fraser, as a lumber

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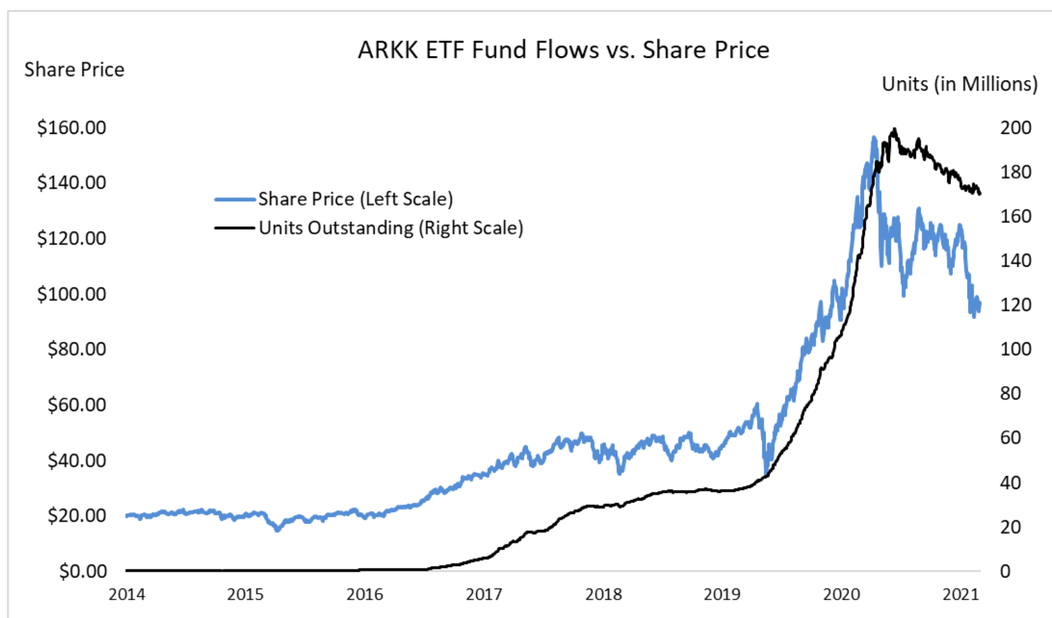
producer, has seen the opposite – its share price has more than doubled since the end of 2019, and while its enterprise value has had a similar increase, its EV/EBITDA valuation is actually *lower* now than before the pandemic. We would also suggest that this EBITDA estimate is way too low. Analysts have been pessimistic on the sustainability of high lumber prices, and most are using $450-$550/Mfbm in their price decks. The reality today is that lumber has quietly more than doubled since the summer to $1100/Mfbm, and EBITDA estimates are all but guaranteed to move higher as it becomes clear that housing demand is robust, and supply remains tight. The “real” EBITDA multiple for 2022 may be as low as 1.6x for West Fraser. While both of these companies are in the “cyclical” bucket, we know which one we’d rather own and which we’d rather avoid.

The Momentum Machine unwinds

Turning now to the growth stock side of the market, we’ve been writing for years now that speculation in parts of the market had become excessive, and yet it continued to find new levels of insanity. Perversely, the pandemic, and specifically the massive amounts of monetary and fiscal stimulus, caused what we believe to be the final surge higher for the cycle in the valuations of these unprofitable businesses. We noted in recent commentary that we viewed the ARKK ETF, run by Cathie Wood, as a near-perfect proxy for the growth-at-any-price environment, and she has been hugely successful in raising assets while generating phenomenal returns for the past few years. Cathie Wood makes no bones about what the fund does – they believe that one should not be concerned about valuation for high growth companies that have the potential to be world-changing. They believe that, on average, these businesses will more than grow into their rich starting multiples. We called this fund a “momentum machine” that was in a virtuous cycle of owning companies that had been going up, thereby raising more assets, buying more of those same companies, thereby raising their prices further. But momentum machines can operate in both directions, and it appears that the Archegos blow-up in Q1, which had pursued a similar strategy of perpetually buying stocks higher (with massive leverage) until it couldn’t anymore, may have marked the top for many of speculative growth stocks. In contrast to the overall Nasdaq which was up 27.5% in 2021, the ARKK ETF was down -24.0%, and is off -44.1% from its Q1 highs. The price declines have done little to improve valuations. Today, the fund’s holding have a median price to sales of 14.9x, with only 21% of the portfolio having positive EBIT. Collectively, the companies in the portfolio lost $5.1 billion last year.

The Fund is also a case study in investor behaviour. We know that investors tend to chase what *has* been working, rather than try to buy what is likely to work next. In fact, the momentum factor that we use as a part of our investment process relies on this fact. Below, we chart the extent of this behaviour in the ARKK fund:



Source: Bloomberg

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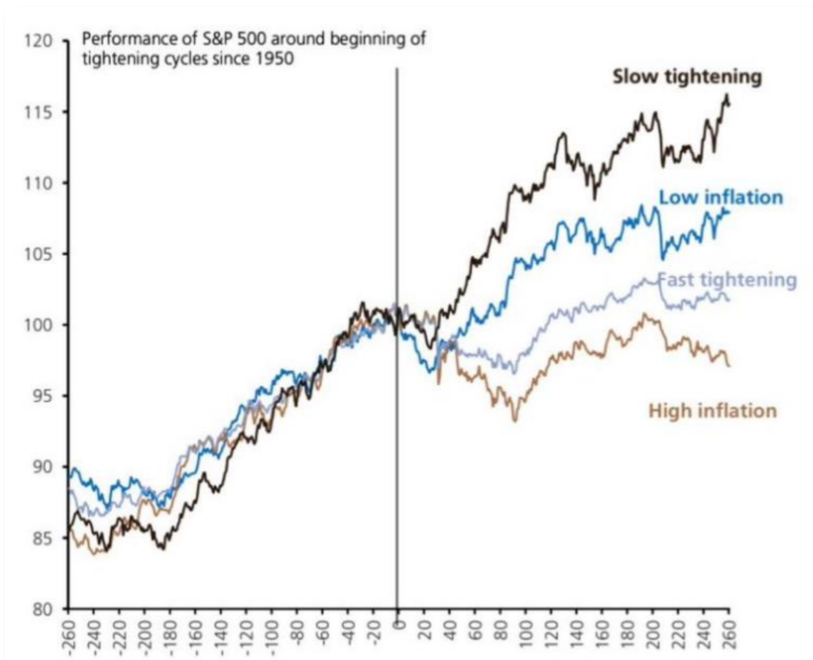
A few things stand out. First, it's clear to see the "momentum machine" in motion, where new units are being created as the share price rises, meaning more money to buy more shares of the same stocks, pushing their share prices up and attracting more investors. Second, the chart shows that the most amount of units exist at the very peak of share performance – there are no net sellers on the way up, only on the way down! What is even more remarkable is that the average investor in the fund is actually now *down* on their investment despite this fund having returned 24.8% annualized since its 2014 inception, a by-product of the bulk of units being bought at the top. We can also see that as the fund has started to lose money, investor flows have turned negative, slowly at first, but if historical patterns persist, they will accelerate, as will the fund's losses if they are forced to sell stocks rather than buy them. The momentum machine can quickly become a doom machine.

Now that we have our poster child for the growth-at-any-price trade at work, we can extend it to a degree to the entire market of expensive stocks that have started to decline. Fund flows for the entire equity market look an awful lot like the ARKK ETF, with a record $1.1 Trillion of new money going into equities over the last year. If you ask any traditional mutual fund company, they'll tell you no fund has sold better than growth style mandates over the last few years, and so that entire part of the market may be subject to similar investor behaviour as the ARKK ETF. Surely this can happen to any investment style – so why are we picking on growth stocks specifically? Because unlike a profitable, cash-flowing, higher quality company, there is by definition no fundamental backstop for a growth-at-any-price stock. As we like to say, it's a long way down from growth to value once investors stop buying into the blue-sky dream for a stock. We've started to see this play out in Canada as well, with former highflyers Docebo, Lightspeed and Nuvei all correcting anywhere from 40% to 70% as investors lose faith en masse, and activist short sellers pile on.

There will be hikes

The discussion above is important given that we believe that the conditions exist (finally) for this rotation to persist for quarters or even years to come when looking at how stretched the returns from growth stocks have become relative to those from value stocks. Growth stocks are also a "long duration" asset, and historically do poorly as multiples contract in response to rising rates. The Fed is now in the process of removing support by tapering its asset purchases, and they have guided to three rate hikes in 2022. Given that inflation is running hot, a by-product of the largest fiscal spend since World War II, we'll take them at their word that they will indeed try. If Omicron really is the last wave, there will be a fair bit of pent-up demand released into the economy, and hopefully some resolution to supply chains that were directly affected, and have crimped some of the economic growth. While the yield curve has had trouble believing that the economy can support any hikes, and actually flattened after the Fed announcement, it has recently started to turn higher again rather rapidly, and absolute yields are moving higher to start the new year. Given that we expect rate hikes, its worth looking at how markets perform going into, and after, the

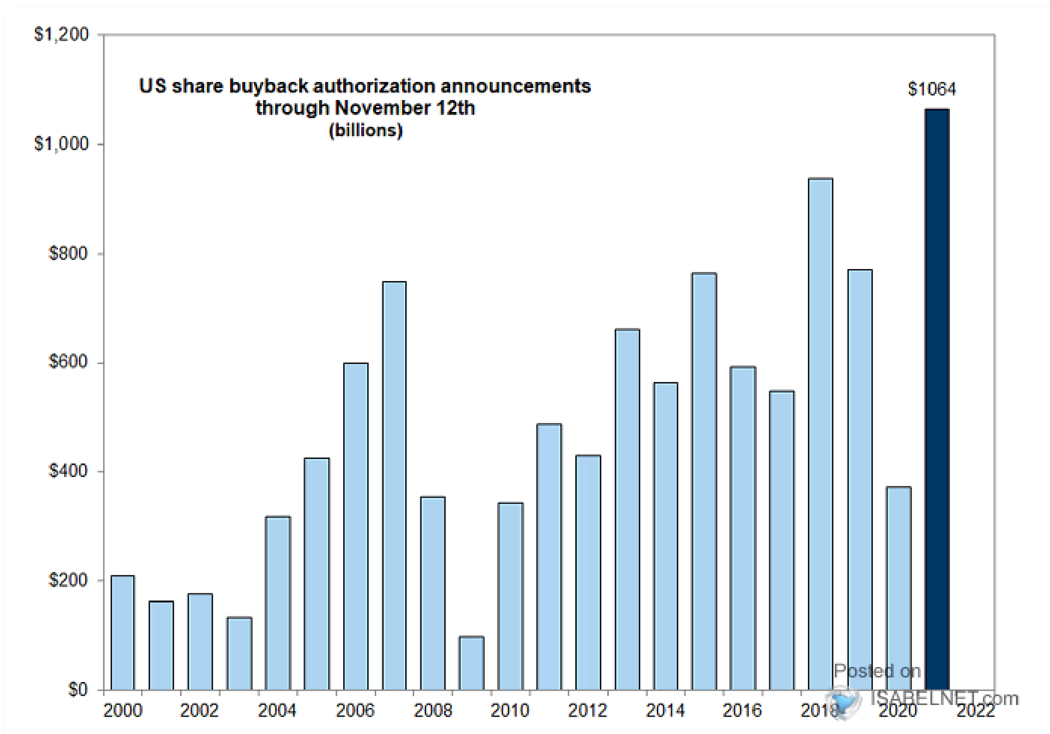


Source: UBS, Factset, Bloomberg

first hikes. The chart to the right from UBS illustrates. We're likely about 180 days away from the first hike, and stocks have strong tendency to rally into the actual event (average of +17% over that 6-month period). From there, it's the type of tightening and inflation backdrop that matter, with the worst outcome (although still not terrible) being rate hikes in an environment of high inflation (greater than 3%). The potential for this stagflation environment, which as we discussed in our last quarterly, is a real possibility for the first time since the 1970s and 80s, and suggests investors should protect themselves with strategies that can take advantage of the *relative* returns of inflation haves and have-nots, rather than the absolute returns that have worked so well from them in recent years. This means owning strategies, like some that we offer, that can own inflation beneficiaries like energy, and short sectors that do poorly in inflation like utilities and staples.

Buybacks are back

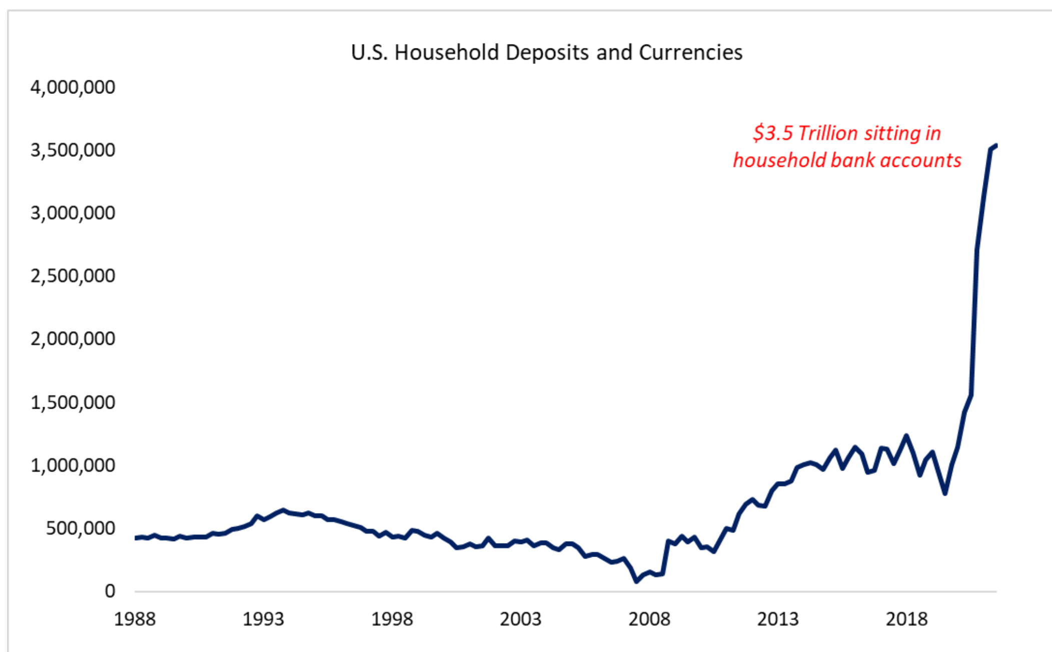
Buybacks had been one of the key sources of buyers for a number of years, and essentially were the only net buyer of equities for a period of time when fund flows into equities weren't as robust. Buybacks took a pause during the worst of the pandemic as companies righted the ship, or were actually prohibited from doing so by regulators (banks for example). Buyback authorizations through 2020 hit a 10-year low as a result, but authorizations through to year end are at approximately $1.2 Trillion. These are buybacks that typically occur over the next calendar year, providing a healthy backstop for equity demand.



Source: Goldman Sachs, Isabelnet.com

The consumer is not likely to disappoint either, with the largest cash hoard sitting in deposits on record. Nearly $3.5 Trillion is in liquid deposits, more than 3x the amount prior to the pandemic, as spending was curtailed during the last few years and governments handed out stimulus cheques. In an inflationary environment, or at least one where the expectations are for future inflation, consumers may be more inclined to spend that money today, or risk having their buying power reduced tomorrow. This set up should benefit consumer discretionary stocks, although we think that larger cap companies that have the best control over their supply chains, as well as the ability to pass through price increases, will have the best chance of success in this environment, so sticking with quality remains our approach. From

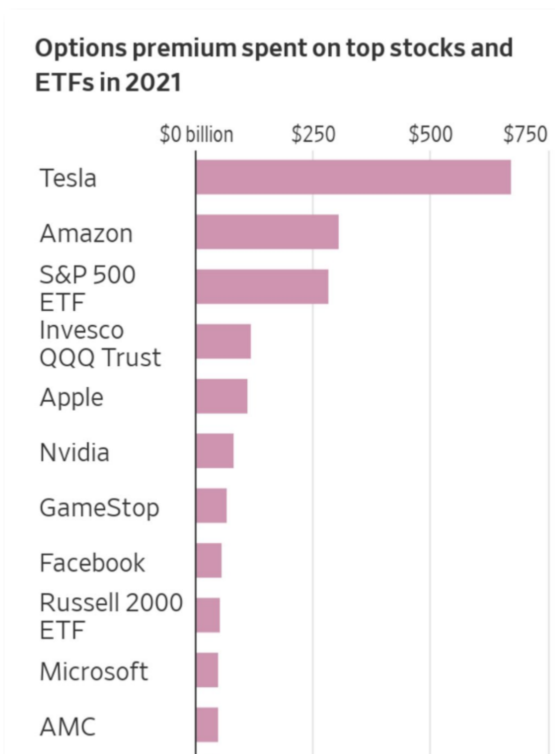
an investment perspective, if investors choose to put that money to work in markets, they are incrementally less likely to buy bonds today than they were before, having just come off a negative year for the asset class, and with the risk that rate hikes not only consume the paltry yields offered, but also some of the principal invested.



Source: St. Louis Federal Reserve

The tail is now officially the dog

We've spoken a number of times about our concerns about the options market becoming so large that it creates all types of market distortions, from the ability to "meme" stocks with dealer gamma squeezes, to liquidity cascades like we saw in March of 2020 caused in part by price-insensitive dealers rushing to hedge options positions and overwhelming all other buyers. None of those concerns have abated for us, and in Q4, for the first time ever, the notional value of single stock options traded surpassed that of the notional value traded of the underlying equities. The options market is no longer the tail that wags the equity dog. It is the dog. Digging a little deeper into the data shows something remarkable. Tesla has come to single-handedly dominated the options market, with traders spending more than $670 billion in premiums in 2021. We'd argue that Tesla is one of the few remaining "growth at any price" stocks to not have rolled over, and this level of options volume, which arguably has created rolling "gamma squeezes" and helped propel it upwards, puts the stock in dangerous territory, as these moves can occur in both directions. It will be the one to watch if this rotation continues to unfold as we expect.



Source: Wall Street Journal, CBOE Global Markets

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Where to from here?

While our Funds don't rely on us making predictions, but rather follow a consistent process both for investing in individual positions as well as gearing up and down overall risk, we recognize that our positioning often reflects macro conditions, and we think it's important to understand how the future might unfold. With that in mind, here are a handful of views that we believe will hold true in 2022:

1. We think the pandemic will finally end, at least as we have known it. Case counts will stop being the primary measure of policy, and Covid will fade from the news as the bulk of people are exposed to it, lessening the fear, shock value and interest level.
2. We think the Fed will stick to their game plan of three rate hikes, and while the market will fret about it, the higher-than-normal (although decelerating) inflation will give them cover to do so.
3. Value stocks will continue to outpace growth stocks, and the charts of most of the "nonsense" stocks with huge multiples of sales, and no hope of realized earnings to match, will resemble those of the Cannabis stocks following their peaks a few years ago.
4. We think index returns will be lower than 2021, held back by their tech-heavy weightings that will struggle in a rising rate environment, but that there will be ample opportunities to generate returns from "alpha" between the haves and the have-not sectors.
5. We seem to make this prediction every year, and have been proven wrong more than right, but we believe that in in 2022 the TSX will outperform the S&P 500, bolstered by its heavier commodity and cyclical weighting.

The case for alternative funds remains strong with bonds offering little to no nominal yield, and negative real yields if we account for expected inflation. While the M&A market will be hard pressed to repeat the activity level of 2021, an apparently endless supply of SPACs currently offer good rate-of-return opportunities and asymmetrical risk-reward. Merger arbitrage strategies continue to stand out as good bond replacements. The environment described above should continue to suit active long/short managers who can take advantage of wide dispersion of valuations among stocks and sectors, as well as those that are nimble enough to adjust in what may continue to be a market of extremes. 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.

Thank you for continuing to trust us with your investment dollars, and may you stay positive and test negative!

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Fund Specific Commentary

Summary of Returns (F-Class):

Fund	1M	3M	YTD	1YR	3YR	Inception
Defensive/Conservative Funds:						
EHP Foundation Alternative Fund	2.5%	2.0%	10.0%	10.0%	5.4%	5.6%
EHP Foundation International Alternative Fund	1.8%	1.6%	6.7%	6.7%	2.7%	3.6%
EHP Global Arbitrage Alternative Fund	1.4%	4.5%	8.5%	8.5%	7.6%	9.5%
EHP Strategic Income Alternative Fund*						
Core/Moderate Funds:						
EHP Advantage Alternative Fund	3.9%	7.2%	17.3%	17.3%	9.4%	7.8%
EHP Advantage International Alternative Fund	3.3%	3.6%	12.3%	12.3%	6.0%	4.8%
EHP Select Alternative Fund	5.3%	4.4%	18.8%	18.8%	18.2%	15.3%
EHP Global Multi-Strategy Fund**	3.3%	5.5%	14.3%	14.3%		14.3%
Specialty Funds:						
EHP Multi-Asset Absolute Return Fund***	2.7%		0.9%			

*Returns for the EHP Strategic Income Alternative Fund are available after 1 year of track record as per National Instrument 81-102
**EHP Global Multi-Strategy Fund was renamed the EHP Global Multi-Strategy Alternative Fund effective January 1, 2022
***EHP Multi-Asset Absolute Return Fund was launched November 1, 2021

Defensive / Conservative Funds

EHP Foundation Alternative Fund

The Fund was up 2.0% over the quarter, finishing up 10% for the year. Returns in the quarter were driven by U.S. long/short equity and merger arbitrage, and with small positive performance from Canadian long/short equity. Our Credit Momentum strategy was essentially flat over the quarter as high yield bonds chopped around on either side of our risk indicators as did U.S. long bonds. Given the pressure on bonds in what is likely to be a rising rate environment, we might expect more of the same directionless returns for credit in 2022.

From an equity factor perspective, it was a strong quarter and strong year for higher quality, lower volatility, dividend paying value stocks, while price momentum and growth were both down. Given our approach of buying cheaper, rising, stable stocks and shorting or avoiding the opposite, the Fund was well suited to this environment. While the market continues to ebb and flow alongside the pandemic, Omicron appears to have shifted the narrative, from one of persistent waves of cases and rolling lockdowns, to that of a “one and done” variant that exposes everyone, but ultimately is less dangerous, and ends the pandemic as we have known it. The markets clearly looked through Omicron, with stay-at-home and growth stocks selling off aggressively despite the off-the-chart case count, while more cyclical companies that benefit from economic growth and rising rates had robust returns.

The quarter was mixed in terms of risk exposure, with equity and credit markets having small pullbacks in November and December before resolving higher. As we enter the new year, all of our risk indicators have turned positive, and the Fund is close to the upper end of its beta range of +0.3. The Fund remains well positioned for a continuation of the current environment, sticking with higher quality, more reasonably priced, dividend paying stocks in materials, energy, and consumer discretionary sectors, while remaining underweight interest and inflation sensitive utilities and REITs, as well as expensive and unprofitable growth stocks.

EHP Foundation International Alternative Fund

The Fund was up 1.6% over the quarter, finishing up 6.7% for the year. Returns in the quarter came primarily from long positions in Europe and the U.K., while Japan was weaker and detracted slightly from returns. Notably, our short positions made money as well in Q4, a contrast to recent periods where the high level of speculation in low quality growth stocks made that difficult to achieve. Our Credit Momentum strategy was essentially flat over the quarter as high yield bonds chopped around on either side of our risk indicators as did U.S. long bonds. Given the pressure on bonds in what is likely to be a rising rate environment, we might expect more of the same directionless returns for credit in 2022.

From an equity factor perspective, international markets saw value stocks underperform their North American counterparts, actually losing money in the quarter, while high quality, low volatility, dividend-paying stocks with strong price momentum led gains. It was a strong quarter and strong year for higher quality, lower volatility, dividend paying value stocks, while price momentum and growth were both down. Expensive growth stocks were weak however, benefitting the Fund, as the speculative excesses in unprofitable technology companies appears to be waning globally. Given our approach of buying cheaper, rising, stable stocks and shorting or avoiding the opposite, the Fund was well suited to this environment. While the market continues to ebb and flow alongside the pandemic, Omicron appears to have shifted the narrative, from one of persistent waves of cases and rolling lockdowns, to that of a "one and done" variant that exposes everyone, but ultimately is less dangerous, and ends the pandemic as we have known it. Europe is taking a different course than the U.K. and the U.S., opting for more lockdowns rather than accepting what appears to be inevitable spread of Omicron. This difference in approach may well be responsible for the underperformance of value stocks in Q4, and may well set up Europe for a robust rally in these sectors once the Omicron wave has passed.

The quarter was mixed in terms of risk exposure, with equity and credit markets having small pullbacks in November and December before resolving higher. As we enter the new year, most of our risk indicators have turned positive, and the Fund is close to the upper end of its beta range of +0.3. The Fund remains fairly balanced between cyclicals and safety, sticking with higher quality, more reasonably priced, dividend paying stocks in industrials, consumer discretionary, and financial sectors, while still maintain a weight in more defensive health care and staples. Interest sensitive utilities and REITs remain underweight.

EHP Global Arbitrage Alternative Fund

The Fund was up 4.5% over the quarter, and finished up 8.5% for the year. Returns in the quarter came approximately 75% from vanilla merger arbitrage and 25% from SPACs, more or less inline with their relative weights over the period. The arbitrage market never fully recovered from the large Willis Towers Watson / AON deal break in the summer, and numerous spreads remain very wide in a historical context as fears of a tougher regulatory environment rightly persist. Our shift to mid-cap, "cleaner" deals in Q2, as well as our process of "timing out" deals with extending closing timelines, helped the Fund avoid a few of the larger deal breaks (PNM Resources, Sportsman Warehouse) in Q4. Larger winners for the Fund included two bidding war situations, Millennial Lithium, and Noront Resources, both now scheduled to close in Q1 of 2022 with their wining suitors having paid up materially from our initial entries. In SPACs, our strategy is generally to spread our risk across a wide range of positions, and wait for deal catalysts to play out. A handful of SPACs did just that, including Digital World Acquisition Corp, which when they announced their planned merger with Donald Trump's newly created media business, generated 71bps of profit for the Fund from a 4bps investment, highlighting how buying cheap optionality can provide asymmetric gains.

The Fund participated in over 122 traditional arbitrage opportunities, and holds 44 positions as of the end of December. SPACs now account for approximately 17% of the Fund, represented by 140 positions. The SPAC market remains very well supplied with new issuance after a lull in Q2 and Q3, as issuers have finally capitulated to market forces and are

offering much better terms. The typical SPAC is now coming to market with an overfunded trust ($10.20 or even $10.30 in trust), a half warrant, and a 15-month or even shorter timeframe to complete a deal. Buying this package at a $10 price guarantees a return and retains the upside optionality in the event the sponsor finds a good deal. With 496 SPACs currently searching and another 269 filed for IPO, the likelihood of the average SPAC finding a good deal continue to decline, but if optionality is purchased cheap enough, or units are bought at a good discount to trust value, there are ample opportunities for arbitrage funds to make money.

The traditional merger market continues to be robust with ample new deals, and with credit markets remaining highly supportive. Deal break risk has increased as noted above, and timelines have been stretched as well as competitive reviews are more common and taking longer to complete. Spreads remain quite wide as a result, and remain particularly compelling when measured against very tight high yield and corporate bond spreads. The Fund enters Q4 with an approximate 1.7% gross spread over an average deal life of 50 days, representing a 12.4% gross expected annualized return on current holdings. These calculations assume no deal breaks, but also no higher competing bids, and assume deals close on the timelines we anticipate.

EHP Strategic Income Alternative Fund

The Fund launched June 1, 2021, and finished the month with a NAV per Class F unit of $10.2776, after a small tax distribution of 0.24% of NAV. As per National Instrument 81-102 regulations, return calculations can only be shown after one year of track record.

The Fund is fully invested with our core long/short bond portfolio representing 48% of NAV on a net basis (82% long and 34% short), and our Credit Momentum strategy (which rotates between U.S. High Yield debt and U.S. 30-Yr Treasuries) in a “risk-on” position, with an approximate 30% weight in U.S. High Yield ETFs. These ETFs serve both as a “liquidity buffer”, as well as an effective way to quickly reduce credit risk in the event our risk indicators roll over. Risk Arbitrage opportunities, which are primarily in SPACs with the highest yields-to-maturities, round out the portfolio at 19% of NAV.

We enter Q1 of 2022 with credit risk at the higher end of its range, with duration at 2.3, and net yield of 3.9% (excluding the estimated yield from SPACs).

In the fourth quarter, the fixed income market continued to flip-flop, trading in a range, with credit risk getting a strong bid in December. The Bloomberg Barclays US Aggregate Bond Index was flat during the quarter, but down 1.54% for the year, while the Bloomberg Barclays US Corporate High Yield Bond Index was up 0.71% in the quarter, advancing the year’s return to 5.28%.

During the quarter, the new issue activity in the high yield market has been healthy with US$67 Billion priced, further padding the record year to date sales tally to US$476 Billion, making 2021 a record-breaking year.

Spreads on investment-grade corporate bonds ended the quarter at 92 basis points over Treasuries, 8 basis points wider than the end of Q3, but still at historically low levels. Similarly, the risk premium on high-yield debt ended the quarter at 283 basis points, 6 basis points tighter than at the end of Q3, but it did fluctuate in a range between 241 and 371. The US 10 years treasuries ended the quarter with a yield of 1.51%, essentially ending flat for the quarter, but with a fair bit of volatility, trading in a range between 1.35% and 1.70%. We continue to believe that the historic low spreads coupled with near historic low treasuries yields create a negative skew and we are comforted by having the ability to short higher risk bonds and to gear the risk down when the market regime changes.

We continued to be active in trading the portfolio as the markets have shifted, taking advantage of the new and growing portfolio trading capabilities that dealers offer. Most of the trades were relative value driven within their sectors however a couple more notable sectoral exposure changes include further reducing exposure to basic materials from 6.4% to 2.1% and increasing financials exposure from 8.0% to 11.8%. The Fund’s largest sector exposure remains energy, albeit lower than at the end of Q3, down from 13.2% to 12.5%.

As we noted in the November monthly update, our high yield risk indicator went "risk off", moving us temporarily into defensive U.S. Long Bonds, but as risk appetite quickly returned, we rotated back into high yield in December. These portfolio shifts were additive to the Fund's return.

Core / Moderate Funds

EHP Advantage Alternative Fund

The Fund was up 7.2% over the quarter, finishing up 17.3% for the year. Returns for the quarter came from both U.S. and CDN long/short equity as well as merger arbitrage, as higher quality, lower volatility, more reasonably priced stocks outperformed, while formerly trending growth stocks lost money. Our shorts, which had been a challenge to manage all year during the waves of excess speculation, were well behaved in Q4, as unprofitable, volatile, low quality growth stocks finally rolled over in what appears to be the start of the unwind of inflated market valuations. Our Credit Momentum strategy was essentially flat over the quarter as high yield bonds chopped around on either side of our risk indicators as did U.S. long bonds. Given the pressure on bonds in what is likely to be a rising rate environment, we might expect more of the same directionless returns for credit in 2022.

From an equity factor perspective, it was a strong quarter and strong year for higher quality, lower volatility value stocks, while price momentum and growth factors were both down. Given our approach of buying cheaper, rising, stable stocks and shorting or avoiding the opposite, the Fund was well suited to this environment. While the market continues to ebb and flow alongside the pandemic, Omicron appears to have shifted the narrative, from one of persistent waves of cases and rolling lockdowns, to that of a "one and done" variant that exposes everyone, but ultimately is less dangerous, and ends the pandemic as we have known it. The markets clearly looked through Omicron, with stay-at-home and growth stocks selling off aggressively despite the off-the-chart case count, while more cyclical companies that benefit from economic growth and rising rates had robust returns.

The quarter was mixed in terms of risk exposure, with equity and credit markets having small pullbacks in November and December before resolving higher. As we enter the new year, all of our risk indicators have turned positive, and the Fund is close to the upper end of its beta range of +0.7. The Fund remains well positioned for a continuation of the current environment, sticking with higher quality, more reasonably priced stocks in financials, energy, materials and consumer discretionary sectors, while remaining short interest and inflation sensitive utilities and REITs, as well as expensive and unprofitable growth stocks. Notably, our process "bought the dip" in energy in Q4, with the sector now the second largest net exposure in the Fund, with the stocks representing some of the best combinations of value (cash flow and ROE), and price momentum.

EHP Advantage International Alternative Fund

The Fund was up 3.6% over the quarter, finishing up 12.3% for the year. Returns for the Fund in the quarter came primarily from long positions in Europe, the U.K., and Australia, while Japan was weaker and detracted from returns. Notably, our short positions had a strong positive contribution to returns in Q4, a contrast to recent periods where the high level of speculation in low quality growth stocks made that difficult to achieve. Our Credit Momentum strategy was essentially flat over the quarter as high yield bonds chopped around on either side of our risk indicators as did U.S. long bonds. Given the pressure on bonds in what is likely to be a rising rate environment, we might expect more of the same directionless returns for credit in 2022.

From an equity factor perspective, international markets saw value stocks underperform their North American counterparts actually losing money in the quarter, while high quality, low volatility, dividend-paying stocks with strong price momentum led gains. it was a strong quarter and strong year for higher quality, lower volatility, dividend-paying value stocks, while price momentum and growth were both down. Expensive growth stocks were weak however,

benefitting the Fund, as the speculative excesses in unprofitable technology companies appears to be waning globally. Given our approach of buying cheaper, rising, stable stocks and shorting or avoiding the opposite, the Fund was well suited to this environment. While the market continues to ebb and flow alongside the pandemic, Omicron appears to have shifted the narrative, from one of persistent waves of cases and rolling lockdowns, to that of a "one and done" variant that exposes everyone, but ultimately is less dangerous, and ends the pandemic as we have known it. Europe is taking a different course than the U.K. and the U.S., opting for more lockdowns rather than accepting what appears to be inevitable spread of Omicron. This difference in approach may well be responsible for the underperformance of value stocks in Q4, and may well set up Europe for robust rally in these sectors once the Omicron wave has passed.

The quarter was mixed in terms of risk exposure, with equity and credit markets having small pullbacks in November and December before resolving higher. As we enter the new year, most of our risk indicators have turned positive, and the Fund is close to the upper end of its beta range of +0.7. The Fund is well positioned for a rotation toward more cyclical value sectors, sticking with higher quality, more reasonably priced stocks in financials, materials and consumer discretionary sectors, while remaining underweight or net short interest and inflation sensitive utilities and REITs, as well as expensive and unprofitable growth stocks.

EHP Select Alternative Fund

The Fund was up 4.4% over the quarter, finishing up 18.8% for the year. Returns in the quarter were driven by long positions in value-oriented cyclicals, while shorts had losses, but not to the same extent as in prior periods where waves of speculation took some of the lowest quality, most expensive stocks to levels of excess not seen since the dotcom bubble. Canadian markets failed once again to surpass those of the U.S., although with a valuation gap between the TSX and S&P 500 as wide as it has ever been on a forward PE multiple, we'll (once again) predict that Canada outpaces the U.S. for returns in 2022. There are some very cheap stock in cyclicals sectors (forestry, steel, energy), and given strong cash balances and tremendous cash flow, it won't take much of an extension of the current inflationary environment to see these stocks re-rate higher.

From an equity factor perspective, it was a strong quarter and strong year for higher quality, lower volatility value stocks, while price momentum and growth factors were both down. Given our approach of buying cheaper, rising, stable stocks and shorting or avoiding the opposite, the Fund was well suited to this environment. While the market continues to ebb and flow alongside the pandemic, Omicron appears to have shifted the narrative, from one of persistent waves of cases and rolling lockdowns, to that of a "one and done" variant that exposes everyone, but ultimately is less dangerous, and ends the pandemic as we have known it. The markets clearly looked through Omicron, with stay-at-home and growth stocks selling off aggressively despite the off-the-chart case count, while more cyclical companies that benefit from economic growth and rising rates had robust returns.

The quarter was mixed in terms of risk exposure, with equity and credit markets having small pullbacks in November and December before resolving higher. As we enter the new year, our risk indicators have almost all turned positive, and the Fund is close to the upper end of its beta range. The Fund remains well positioned for a continuation of the current environment, sticking with higher quality, more reasonably priced stocks in financials, materials, and consumer discretionary sectors, while remaining short interest and inflation sensitive utilities and REITs, as well as expensive and unprofitable growth stocks.

Specialty Funds

EHP Global Multi-Strategy Fund

The Fund was up 5.5% over the quarter, and finished up 14.3% for the year. 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 Q4 in a "risk on" environment, with a baseline exposure to our Global Merger Arb strategy which aims to provide consistent returns in all market environments, and with a tactical exposure to our Advantage and Select long/short strategies. With our risk indicators partially risk off in some markets (Japan, and a portion of Canada), as of the end of Q4, the Fund enters 2022 with partial allocations to our more defensive Foundation strategies.

Please note that the vote to convert the Fund to a prospectus offered, liquid alternative fund was successfully completed with 100% of the votes cast in favour, and the change will take effect as of January 1st, 2022 (including the renaming of the Fund to the EHP Global Multi-Strategy Alternative Fund). While there is no change to the strategy of the Fund, investors will benefit from lower management and performance fees, consistent with our other liquid alt funds, as well as moving to daily pricing and liquidity. This change will also make the Fund accessible on all major bank and independent dealer platforms.

EHP Multi-Asset Absolute Return Fund

The Fund launched November 1st, and was up 0.9% over the period, with gains led by short-term trend and volatility in both equities and commodities, followed by fixed income carry and currency value. Long-term cross-asset trend, volatility trend and commodity carry were detractors to performance due to bond, equity and commodity whipsaws we experienced in the quarter.

In equities, short-term trend and volatility provided the strongest performance for the quarter, more than making up for long-term trend whipsaws. In commodities, performance benefitted from curve trend, supported by continued flows into inflation hedges, as well as short-term trend and volatility in energy. Commodity carry and crowdedness were small detractors from performance. In currencies, value was a contributor to performance while trend was flat. In fixed income, carry performance was positive while trend was negative.

Heading into 2022, we are positioned to provide an active inflation hedge and diversifying absolute returns to replace bonds or equity. Equity positioning is currently risk-on, while we are ready to take advantage of an anticipated higher volatility environment. Current positioning in bonds, based on trend and carry, is biased short with a relative preference for higher yielding Australian and US bonds, versus UK, European and Japanese bonds. In currencies we favour the value and trend of USD and less so JPY versus EUR, CAD and AUD. Commodity carry, trend and crowdedness currently favour the long end of curves over short, with a relative preference for energies and metals over agricultural and livestock providing continued 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, COVID, geopolitical tensions and otherwise.

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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 data: Bloomberg.

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