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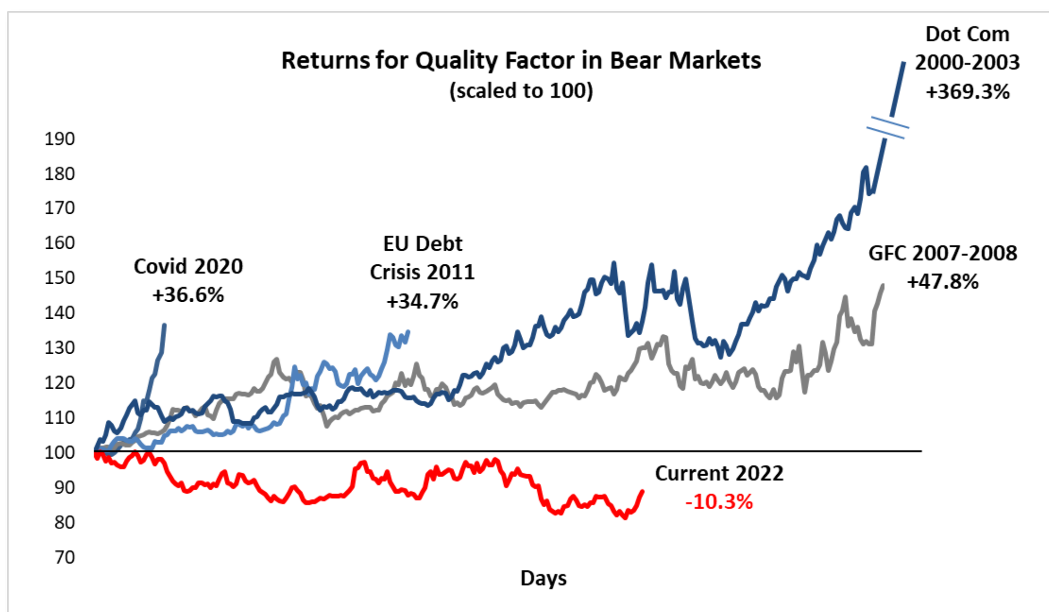
Q3 2022 Fund Commentary

Markets were brutalized in September, leaving virtually all asset classes down for a third quarter in a row. Once again there was no place to hide, with world equities now down an average of -25% on the year, aggregate bonds down -15%, and "inflation hedge" gold -9%. The US dollar, now up 17% on the year against its trade weighted partners, was one of the few sources of positive returns, but its rise, along with interest rates, continues to be the global wrecking ball as asset prices everywhere try to reprice themselves against this new regime of a much higher discount rate. Real cracks have started to show up in the global financial plumbing, with Japan and China forced to intervene in their currency markets, and the Bank of England narrowly avoiding (for now) a "Lehman moment", rushing to buy long-dated gilts to stop supposedly conservative pension fund managers from being margin called on the up to 7x leverage(!) they had placed on their bond holdings. High yield debt issuance in the U.S. suddenly showed signs of real stress, with bond deals pulled, or dumped at discounts, leading to sizeable losses to the banks. We have been of the view that the Fed will ultimately blink if financial stability is truly threatened, and September was the first time in this bear market where this possibility started to look like a reality. Things are indeed starting to "break", with the only positive being that we may be closer to the end of this hiking cycle as a result.

Our funds fared meaningfully better than markets over the quarter for the most part, although it was by no means an easy three months, with a continuation of the challenges of huge market rallies and crashes, causing "whipsaws" and making risk allocation a challenge. Quality stocks continued to *underperform* junkier stocks, making shorts less effective than other historical periods of market weakness, and there remain a limited number of safe haven assets that can be used as a hedge to reduce fund beta. In some ways, what we are seeing is the "pig in the python" of excessive monetary and fiscal stimulus of the past few years, which caused all manner of speculation and overvaluation, working its way back out of the system in violent fits and starts.

A deeper dive on quality

We've highlighted a number of times in recent letters our frustration with the "quality" factor offering little protection during this bear market, in contrast to past selloffs. To illustrate the point, we show this bear market period vs. others, scaled to 100 from the start of each bear market, in the chart below:

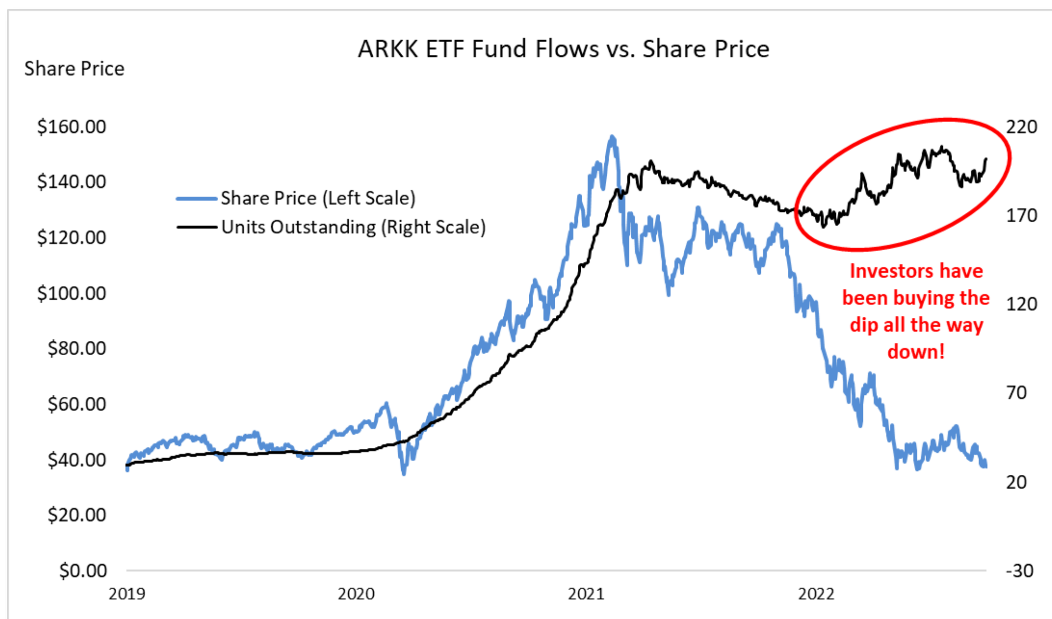


Source: Morgan Stanley, EHP Funds

This is the only bear market in our dataset where low quality stocks have outperformed high quality ones. Quality in this case is defined by attributes like return on equity, interest coverage, and price to free cash flow, and so it is curious that investors would prefer to own companies with a much lower margin of safety and profitability in the middle of a bear market. We've suggested various possible explanations for this, including the fact that high quality stocks were expensive at the start of the year, as well as having a fairly high representation of "tech 1.0" stocks like Apple, Microsoft, Google, etc, where their huge cash generation and fortress balance sheets kept them in the quality "bucket". As technology led the downturn, other stocks in the same bucket were sold off in sympathy. But these explanations focus on the long side of the quality factor, and are actually a smaller portion of the underperformance. The real culprit is the short side of the equation, where the outperformance of these junky stocks has been remarkable. As of mid-August, the basket of low-quality stocks was actually *up* on the year, driven higher by the third major wave of speculative buying and short covering this year. Only in the last few weeks have these stocks finally started to "catch down", resulting in better relative performance for strategies like ours, but they are still down meaningfully less than their high-quality counterparts.

So, who are the buyers of these stocks that are surely at highest risk of missing earnings, or never earning a profit at all? We think the answer is actually two-fold. The first set of buyers for these junky stocks are actually the hedge funds (like us) who are short them and getting squeezed. This buying is temporary and limited of course, but it can be violent, and this year we've seen three major waves of short covering as markets pushed higher in some of the largest bear market rallies seen since the dotcom bust. These same buyers then tend to re-short these stocks at they roll over again. Net exposure by hedge funds is right at trough levels seen during major bear market lows, as is net short positioning in S&P 500 futures by speculators, and these can make for some very jumpy markets with sudden, sharp moves as everyone rushes to cover at the same time.

The second buyer of these junky stocks, however, is more concerning. It is the "retail army", cashed up by government cheques during the pandemic and emboldened by the success of the "meme" stocks that had inexplicable and astronomical returns at the height of the bubble. Take the following chart, which we had first shown a year ago to illustrate the remarkable behaviour of investors "buying the top" of the ARKK ETF which has come to characterize this era of speculation:



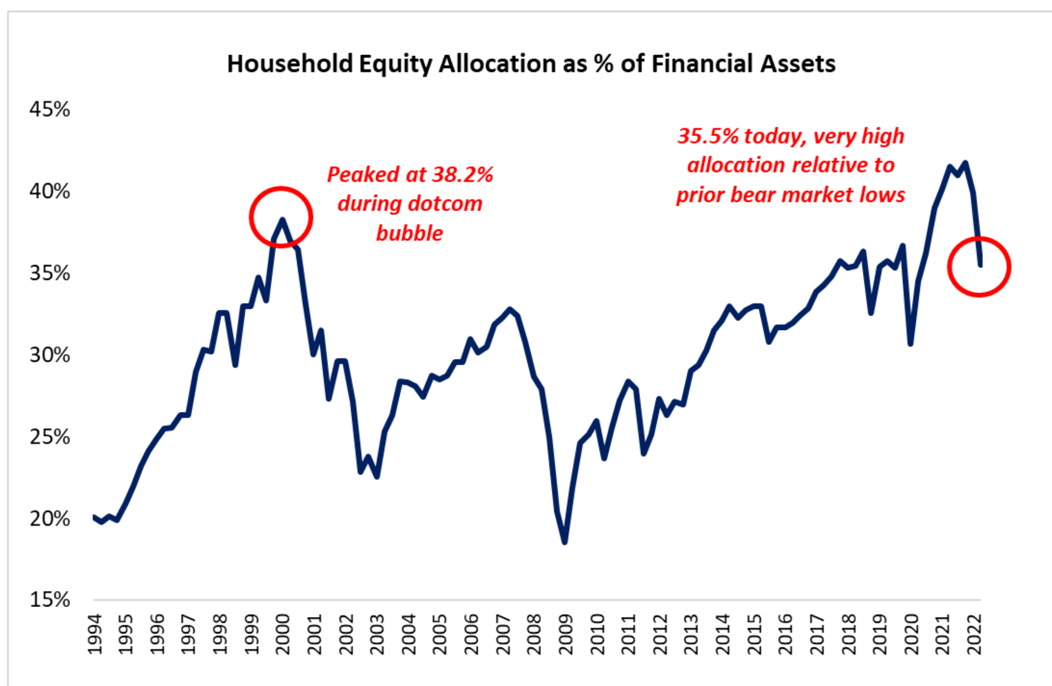
Source: Bloomberg

Our thesis at the time was that this would be a tale of incredible losses for these buyers, and that fund flows would reverse just as quickly. Incredibly, while we were correct about the losses (the ETF is down a staggering 70% from its 2021 highs), we were dead wrong about investor behaviour – retail investors have bought all the way down, with more units outstanding today than at the fund's peak price! These investors will need the fund to rally more than 300% just to break even, and yet they appear, in aggregate, to be undaunted. As fund managers acutely aware of the typical pattern of fund inflows and outflows , we can assure you that there are very few examples of a fund that is down -70% that has suffered no net redemptions as a result.

Has investor behaviour changed? It has, at least temporarily. The meme stock and crypto era of easy gains were also characterized by the "diamond hands" investors – part of the narrative of fighting the old wall street guard, it was meant to imply that there was no price too high (or too low) where one should be a seller. In crypto, the term "HODL", sometimes denoted to be an abbreviation of "Hang On for Dear Life" became the mantra, and there is little doubt that this style of investing is being witnessed in the unprofitable companies held by the ARKK ETF. It's one thing to HODL when the chart of your wealth points largely from bottom left to top right, but will these same investors hold through years of declines, tax loss selling seasons, and no reasonable hope that many of these companies will even survive without profits and their sources of funding cut off? We can't know for sure, but we doubt it. While low quality stocks have yet to respond to this bear market, they are very likely to be the source of pain for investors, and the source of outperformance for those short, in coming quarters and years.

Everyone is bearish but no one has sold

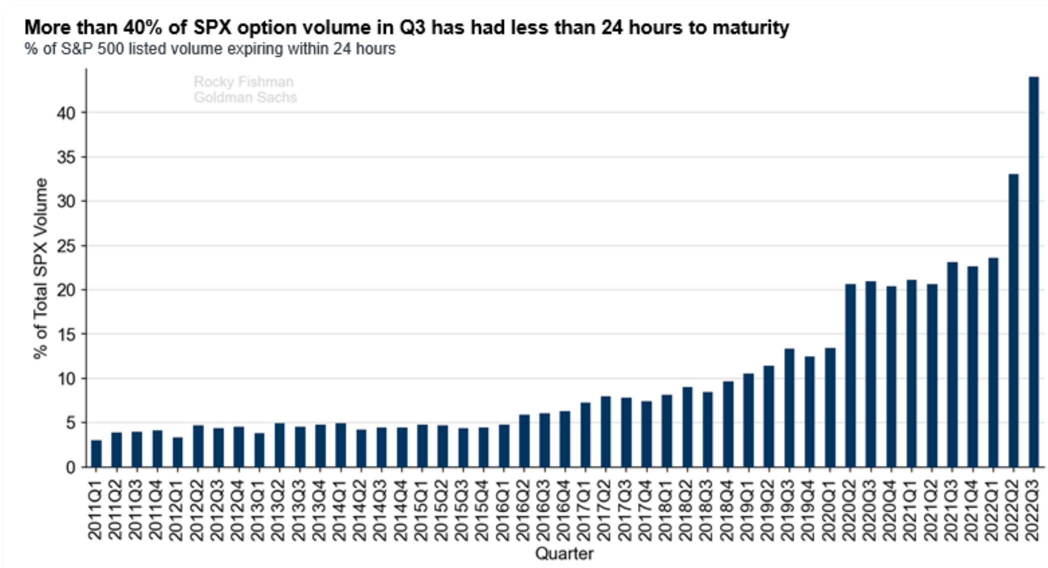
So why is this speculative behaviour a concern for markets in general? We think as this stimulus 'pig in the python" rolls through the markets, there is another large imbalance that will eventually need to be reconciled. While every single sentiment survey suggests that investors of all types are incredibly bearish, not everyone has done anything about it. Like the ARKK investors that have continued to hold and even add to their losing positions, the same can be said for household allocations to equities in general. The chart below illustrates the point:



Source: Federal Reserve Economic Data, St. Louis Fed

What the chart shows is that in the world of "TINA" (there is no alternative), households allocated to stocks at the highest level ever seen, surpassing the old highs of the dot-com boom. The data on financial assets includes privately held company ownership, defined benefit pensions and cash, and if we back those holdings out and just look at stocks and bonds, households (and their advisors) shifted the traditional 60/40 allocation to a record 85/15 at its peak. Today, that allocation sits with equities at an 81% slice, but that is a very long way from the last major bear markets in 2001 and 2008 where allocations to equities vs. bonds fell to 69/31 and 58/42 respectively. TINA has given way to TANYA (there are now yield alternatives), and with low-risk GICs yielding 4%+, and high yield debt, with less risk than equities, yielding just shy of 10%, investors need to believe that the forward returns on equities will be *very* robust if they are to remain overweight them. These processes take time, and we are just now seeing the start of equity outflows after the strongest few years of inflows on record. These outflows are likely to present a headwind to equities for quarters and potentially years to come, and may be the source of the next leg down if the market declines turn into a retail panic.

While retail investors are very long stocks, hedge funds are not, with some of the lowest levels of gross and net positioning on record. As mentioned earlier, this light positioning has a tendency to make markets "jumpy" as these funds now have greater risk of being "squeezed" out of their heavier short positioning. We also think that this light positioning is causing funds to rely on options as a way to quickly hedge their books, and this has created a rather amazing phenomenon in the market not seen before. The chart below shows the percent of options traded that expire within 24 hours. While using very short-term options has been on the rise for the past few years, Q3 saw an explosion in both the overall volume of options as well as the percentage of them that expire the same day, with the latter now accounting for ~45% of all options traded. These very short-lived options can have huge amounts of "gamma' associated with them, and the dealers that sell these options can be forced to rush to buy the market on up days and sell it on down days, creating a growing structural risk to markets in an already low liquidity environment and risking "flash crash" like events.



Source: Goldman Sachs

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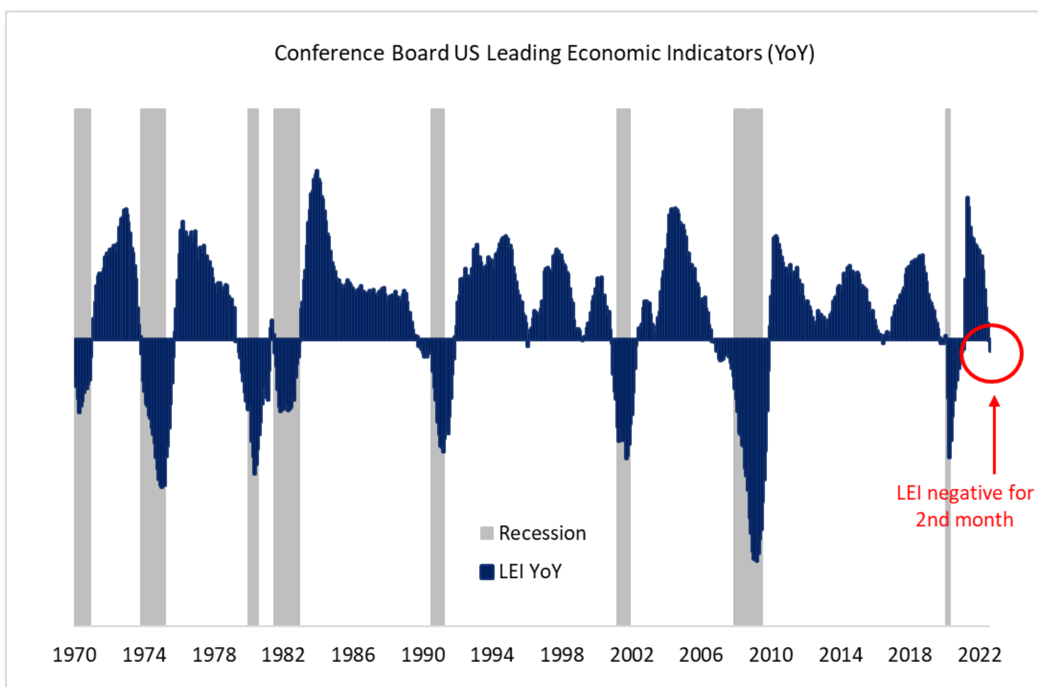
Recession watch

We had been optimistic earlier in the year that the inflationary pressures that had built up from a combination of fiscal stimulus and supply chain disruptions would wane fairly quickly – specifically as Covid restrictions eased and countries opened up. Unfortunately, China's approach to shutting down major cities as a part of its "Covid zero" policy kept supply problems front and center, and overall inflation has pushed the Fed to continue to ramp up both its hawkish rhetoric as well as its terminal rate for this hiking cycle - now expected to be as high as 4.5%. Where the market was as recently as last quarter discounting a Fed pivot this fall and a rate cut as early as Q1 of 2023, markets now see a more protracted path for rates, with the Fed raising to 4.5% by spring, and holding them at high levels through most of 2023. While the actual path of rates may vary considerably from this (more on this later), we are at a point where we need to assume a high likelihood of a recession for global economies, and consider what that will mean for markets. The Conference Board's leading economic indicator ("LEI") has now turned negative for the 2nd month in a row (chart below), and historically unless this is reversed quickly, a recession has always followed.



Source: Conference Board, Bloomberg

Yield curves are also predicting a recession. Virtually all parts of the curve are now inverted, and the widely followed 10yr – 2yr is now the most inverted since 2000. As we've written in past letters, the largest market drawdowns tend to occur *after* the yield curve starts to steepen, typically coincident with the start of a rate cut cycle in defense of an ailing economy. Two indicators that remain strong are employment and corporate profits. Employment has been persistently strong this cycle, and the resulting wage pressure is one of the core reasons why the Fed is concerned about the high levels of inflation given wage gains tend to be sticky. Claims data is a lagging indicator, so we should expect to see it respond in coming quarters, but what has been surprising are the number of new jobs created in recent months. Corporate earnings have also been surprisingly resilient. In the chart below, we track the median earnings of S&P 500 companies, showing the most recent quarterly earnings compared to the same quarter a year ago. We use median earnings to avoid the data from being dominated by one or two large companies.

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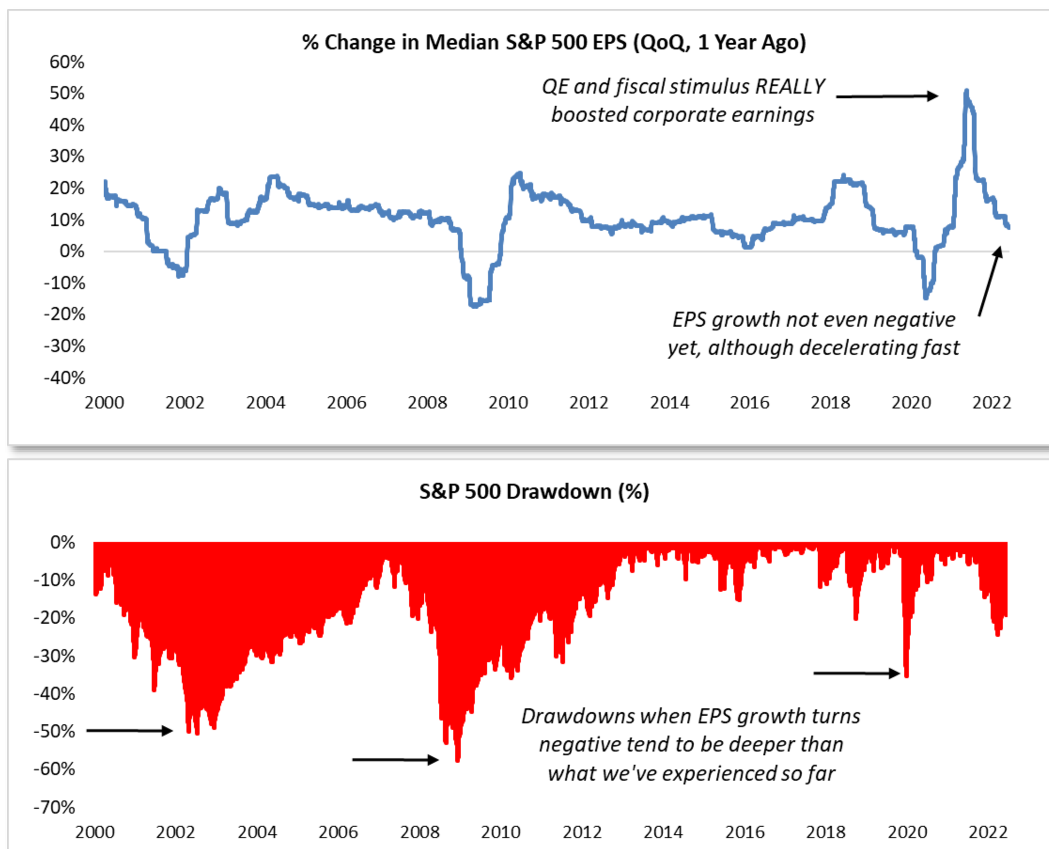


Source: Capital IQ, Bloomberg, EHP Funds

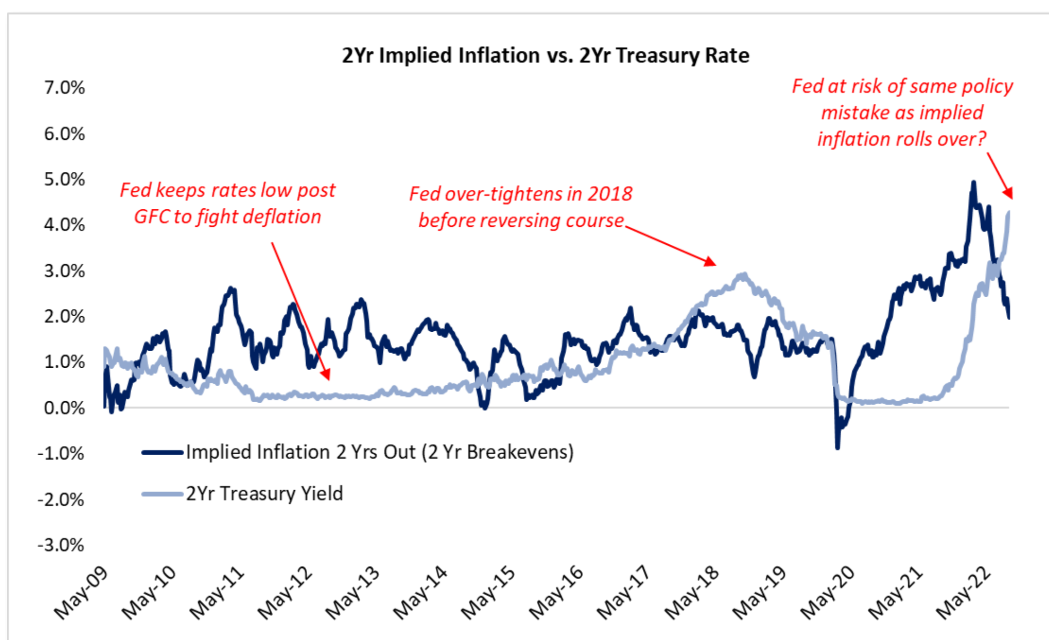
Two things stand out. The first is just how large the resurgence in corporate profits was after the Covid-induced pullback. While the median decline in EPS of ~15% was very similar to that of the 2008 GFC recession, the recovery of more than 50% off of those lows was twice that of prior recoveries in 2003 and 2010. This earnings strength is another example of just how much money flowed into the economy through stimulus, and the numerous knock-on effects. Now, however, the pace of earnings growth is falling rapidly, although it has not yet turned negative as of Q2 reporting. This chart will be one to watch closely, because as is shown in the lower panel, the largest market drawdowns occur when EPS growth turns negative. Markets avoided larger drawdowns in 2011, 2015, and 2018, with earnings holding up in all three periods, but it remains to be seen whether corporations can remain profitable in the current tightening cycle. What has been clear of late is that conditions are deteriorating rather rapidly, with a number of bellwethers like FedEx reporting substantial earnings misses only weeks after giving much more robust guidance. The direction for the market in the short term may well hinge on a now very important Q3 earnings season.

Are we closer than we think?

While all the above data might paint an awfully bearish picture, there are no guarantees that the economy unfolds in a straightforward recession that investors are now very fearful of. As we mentioned earlier, it has become clear in recent weeks that the pressures exerted on the market by rapidly rising rates are starting to break things, and the list is growing by the day. European banks are once again showing signs of real stress, with the credit default swaps on Credit Suisse now higher than during the 2011 European bank crisis and above the levels seen during the 2008 global financial crisis. The U.K. has thrown itself into a crisis, largely of its own making, but nonetheless causing massive declines on both their currency and gilts bond market. Both Japan and China are intervening to avoid their currencies from devaluing too rapidly, and China is now stimulating more meaningfully to stem the bleeding in its broken housing construction market.

The Fed's actions, and the central banks around the world that have been forced to follow suit, have tightened financial conditions at a rapid pace, and given that policy takes time to work its way through the system, the Fed must realize that they are at risk of actually overtightening, much as they over-stimulated in the first place. Our view is that the Fed will talk hawkishly right up until the point where they are about to pivot, as doing anything that might be perceived as dovish prior to that risks having the market unwind the work they've done. But we expect the pressure from both politicians, nervous about re-election prospects in the face of rising layoffs, and systemically important banks, concerned about shrinking liquidity and growing losses on debt, to start to weigh on the Fed, not withstanding their theoretical policy of acting independently of those forces.

By one measure, the market may have already fully discounted where the Fed needs to get to on short term rates. We update the chart below from our Q2 letter to include the recent data, with the gap between what the bond market is discounting through the 2-year treasury rate vs. the 2-year implied inflation rate reaching the "danger zone" where past Fed pivots have occurred.



Numerous measures of inflation have started to turn lower, especially among the areas where we initially saw price pressure such as shipping costs, crude oil and used car prices, which have all reversed sharply. And while employment numbers remain strong, the list of companies that have frozen hiring or have announced substantial layoffs, especially in the white-collar technology sector, is piling up quickly. Of course, given that inflation is a year-over-year calculation, just the passage of time will make the "comps" easier going forward. Prices don't have to go down to get the decline in inflation the Fed seeks - they just have to stop going up at the same rapid pace. We expect that we may see the first meaningful declines in headline inflation in coming months, and that, coupled with the damage to economies that is clearly starting to grow, may give the Fed cover to pause and assess. Markets would certainly respond very favourably to this outcome, and as such a "softish" landing is still not out of the question.

Where to from here?

It's been a frustrating nine months, which is not all that surprising given that it is the worst start to a year since the 1930s, and one of the worst periods of performance for a classic 60/40 portfolio ever. The endless chop of markets that seem to sell good business on down days, and buy bad businesses on up days, sprinkled with massive bear market rallies that push through key technical levels before failing yet again, has made for our toughest period in our 20+ years of managing money. As we enter Q4, there are a few positives, however. Seasonality begins to turn in favour of stronger

equity markets, and this is especially true in years where the is a mid-term election. China has begun to stimulate, which should be a positive for commodity markets, especially industrial metals and crude oil, which are both currently struggling with a recessionary outlook. In energy, where we continue to be positioned with an overweight given their very strong earnings profiles and cheap valuations, we suspect that once the Strategic Petroleum Reserve (perhaps better described as the strategic midterms reserve) completes its sales in the coming months, that crude oil will likely start to rise again given the underlying lack of real supply and limited capex being spent on production growth. We enter Q4 with the funds at or near the lower end of their risk ranges in terms of net and gross exposure, but are seeing opportunities in more pro-cyclical stocks in energy, materials, and consumer discretionary sectors, while more defensive consumer staples and utilities are the source of cash for these shifts. Parts of the market are quite cheap – if we exclude the "FAAMG" stocks – Facebook, Apple, Amazon, Microsoft and Google, the rest of the market is trading at a P/E ratio of 13x – not far from the depths of Covid and the mini-bear market of 2018. In addition, if the market does roll into a full-blown recession, we expect that a sell-off will hurt lower quality stocks far more than high quality, benefiting our strategies. Given the "reset" that the bond market has had this year, we anticipate that traditionally defensive allocations, like owning US long bonds, will also become useful again in portfolio construction, as the long end of the curve will almost certainly correct lower in advance of Fed cuts.

All in all, we stay the course, and remain as focused as ever on our following our risk process and avoiding emotional decisions that can be so detrimental to long-term returns. We thank you as always for continuing to trust us with your investment dollars.

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Fund Specific Commentary

Summary of Returns (F-Class unless otherwise denoted):

Fund	1M	3M	YTD	1YR	3YR	Inception
Defensive/Conservative Funds:						
EHP Foundation Alternative Fund	-1.1%	-4.1%	-9.6%	-7.8%	1.0%	2.0%
EHP Foundation International Alternative Fund	-1.3%	-3.1%	-8.3%	-6.8%	-1.2%	0.8%
EHP Global Arbitrage Alternative Fund	-2.2%	-2.3%	-9.8%	-5.6%	2.2%	5.0%
EHP Strategic Income Alternative Fund	-1.7%	-0.5%	-4.6%	-3.6%		-1.3%
Core/Moderate Funds:						
EHP Advantage Alternative Fund	-1.4%	-0.3%	-11.8%	-5.4%	3.3%	3.2%
EHP Advantage International Alternative Fund	-2.4%	-6.0%	-14.6%	-11.5%	-1.8%	0.0%
EHP Select Alternative Fund	-8.7%	-7.5%	-23.9%	-20.1%	7.4%	5.1%
EHP Global Multi-Strategy Alternative Fund[1]	-3.1%	-4.4%	-14.9%	-10.1%		-1.6%
Specialty Funds:						
EHP Multi-Asset Absolute Return Alt. Fund*	NAV as of September 30th: $11.173					
EHP Global ESG Leaders Alternative Fund*	NAV as of September 30th: $9.906					

*Returns are available after 1 year of track record as per National Instrument 81-102

[1]The EHP Global Multi-Strategy Alternative Fund (formerly the EHP Global Multi-Strategy Fund) (the "Fund") was not a reporting issuer during the period of December 28, 2020 to December 31, 2021 (the "Relief Period"). EHP Funds Inc., the manager of the Fund, obtained exemptive relief on behalf of the Fund to permit the disclosure of performance data of the units of the Fund relating to this Relief Period prior to which the Fund was not a reporting issuer. On January 1, 2022 the Fund became a reporting issuer. While the manager reduced, as of January 1st 2022, both the management fee rate (from 1.0% to 0.9% per annum) and performance fee rate (from 20% to 15%) for Class F unitholders of the Fund, the other operating expenses of the Fund would have been higher during the Relief Period the Fund was not a reporting issuer due to the additional regulatory requirements applicable to a reporting issuer.

Defensive / Conservative Funds

EHP Foundation Alternative Fund

The Fund was down -4.1% over the quarter, in what remains our most challenging environment for the strategy historically. The Fund entered the quarter risk off, but added some exposure in August as the market rally was strong enough to have our process rise above risk levels in both the U.S. and Canada. Ultimately, markets resumed their downtrends for both equities and bonds, closing Q3 at fresh lows for the year. One of the challenges to our strategy this year, besides this persistent "whipsaw", has been a lack of traditional defensive tools, specifically the U.S. long bond which is down almost as much as equities YTD. Despite this, the Fund has become much less correlated with equity markets - as broad equity markets dropped further into bear market territory (with the S&P 500 declining nearly -25% from prior highs at its worst point), the Fund held relatively stable and protected capital. Losses were spread across strategies, with Canadian equity long/short the largest contributor.

Our Credit Momentum strategy had small losses from yet another short-lived "risk-on" signal in high yield bonds that quickly reversed course alongside equity markets. As of the end of the quarter, the Fund is at the lower end of its risk range, and sits in cash for the Credit Momentum strategy as all bonds are in a defined downtrend. With long bonds having been "reset" in terms of rates, we anticipate that if markets do start to fully discount a recession that the long end of the curve will once again offer a source of tactical protection.

Merger arb strategies had losses during the quarter as well, but were due solely from the widening of spreads and not from deal failures. Arb spreads ended the quarter at an average of 13%.

From a sector perspective, the Fund has moderate net exposure to cyclicals in energy, industrial sectors and dividend-paying technology, while remaining underweight more expensive bond proxy utility and REIT sectors. The Fund enters Q4 with all markets “risk off”, and with an estimated beta to equity markets of approximately zero.

EHP Foundation International Alternative Fund

The Fund was down -3.1% over the quarter, in what remains a particularly challenging environment for the strategy. One of the challenges to our strategy this year has been a lack of traditional defensive tools, specifically the U.S. long bond which is down nearly as much as equities YTD. Despite this, the Fund has become much less correlated with equity markets, and as broad equity markets dropped further into bear market territory after yet another bear market rally in August. With the MSCI World finishing the quarter nearly -24% from prior highs, the Fund held relatively stable and protected capital. While frustrating, losses remain contained within our tolerance for the strategy, and we do accept that there can be periods where the path of markets causes short-term “whipsaws” that cause small incremental losses while making overall defense a challenge. Losses were spread across strategies with Europe equity/long short the source of largest losses.

Our Credit Momentum strategy had small losses from yet another short-lived “risk-on” signal in high yield bonds that quickly reversed course alongside equity markets. As of the end of the quarter, the Fund is at the lower end of its risk range, and sits in cash for the Credit Momentum strategy as all bonds are in a defined downtrend. With long bonds having been ”reset” in terms of rates, we anticipate that if markets do start to fully discount a recession that the long end of the curve will once again offer a source of tactical protection.

From a sector perspective, the Fund has moderate net exposure to the dividend-paying stocks in more cyclical industrial, materials and financial sectors, while remaining underweight more expensive bond proxy utility stocks. The Fund enters Q3 with all markets “risk off”, and adding exposure to U.S. long bonds, and with an estimated beta to equity markets of approximately zero.

EHP Global Arbitrage Alternative Fund

The Fund was down -2.3% over the quarter in what continues to be a challenging environment for the strategy. Losses came from merger arb spreads widening in sympathy with credit spreads, ending the quarter at 13% annualized, as well as from SPACs and SPAC warrants that continued to find to fresh all-time lows. The average SPAC seeking a deal now yields an attractive 6.0% (unlevered), with no risk of capital loss if held to redemption, as well as the upside optionality that the SPAC finds an attractive deal and shares can be sold above trust value. SPAC warrants, which we had added in late Q4 and earlier this year, continued their decline, as all optimism that SPACs can find deals essentially evaporates. Even where deals are being announced, the market is almost fully discounting that they will not be completed. While we were clearly far too early to the trade, at these levels, with warrants trading for pennies, there is very little remaining risk in the positions held by the Fund, and quite large potential upside should SPAC sponsors find attractive deals in what is now a much cheaper universe of potential targets.

The Fund participated in 73 traditional arbitrage opportunities, and holds 33 positions as of the end of the quarter. SPACs now account for approximately 24% of the Fund, represented by 232 positions. The traditional merger market has slowed vs. its pace last year, but remains relatively healthy with more than enough attractive opportunities to invest in. Deal timelines remain stretched as competitive reviews are more common under the Biden administration and taking longer to complete, and in general we’ve been avoiding deals with such risk, particularly given that downside risk increases in the event of a break during volatile markets. The outlook for deal flow is hard to handicap, in particular because the high yield bond market has become stressed in recent weeks, which may slow the pace of private equity deals which typically rely on levered financing. The market is concerned about a growth slowdown, which would further

pressure deal flow if it comes to pass, although typically even during recessionary periods there can be adequate deal flow priced with wide spreads to maintain an attractive overall return. Rising interest rates tend to be a benefit for merger arb in that new deal spreads reflect the higher yields immediately, increasing notional returns on these mergers. Given that mergers tend to be completed in 3-6 months, the strategy is akin to a "floating rate" note that adjusts quickly to the current yield environment.

EHP Strategic Income Alternative Fund

The Fund was down -0.5% over the quarter, with the bulk of the drawdown occurring in a difficult September. Losses came primarily from our core long/short credit strategy which has an approximate 0.4 net positive beta to high yield.

The quarter was another roller-coaster ride that started with a rebound in July followed by a sell-off in August which accelerated in September. Most of the move was induced by treasury moves with credit spreads tightening and then widening, driven by the overall change in market sentiment. Through the ups and downs during the quarter, the core long-short credit strategy had a 12bps positive contribution, helped by an overweight to the energy sector.

The third quarter volatility was mainly treasuries-driven as the Bloomberg Barclays US Aggregate Bond Index was down -4.7%, while the Bloomberg Barclays US Corporate High Yield Bond Index was down only -0.6%. Within high yield, CCC was down -0.4%, B credits down -0.6% and BB down -0.8%. Third-quarter US high yield issuance continued to be subdued, with bond sales at a modest $19b, bringing the YTD issuance to $87b, the lowest since 2008. Spreads of investment-grade corporate bonds ended the quarter at 159 basis points over Treasuries, just 4 basis points wider than the end of Q2. The risk premium on high-yield debt ended the quarter at 552 basis points, which was actually 16 basis points tighter than at the end of Q2. The US 10-year treasury rate ended the quarter at 3.83%, 81bps wider than at the end of Q2, and near its highs for the year.

The high yield spreads remain in the wider half of their historic range (most of the time high yield spreads trade in the 300-400 basis points range) and with the all-in yields at 9.7%, high yield will provide attractive returns long term.

We continued to run our disciplined portfolio management process in Q3 albeit at a lower churn given the wider spreads and implied trading costs. The Fund was appropriately positioned coming into this environment, as our process is designed to allow us the luxury of not being forced to trade in erratic markets and position the portfolio when the trading costs are low. SPACs added value, and we redeemed a number of positions for cash, while redeploying capital into average yields now approaching an attractive 6.0%. Risk Arbitrage opportunities, which are primarily in SPACs with the highest yields-to-maturities, round out the portfolio at 24% of NAV.

We enter Q4 of 2022 with credit risk at the lower end of its range, with duration at 1.9, and net yield of 4.7% (including the estimated yield from SPACs). The Fund's largest sector exposure remains energy at 16.7%, somewhat higher than at the end of Q2.

Core / Moderate Funds

EHP Advantage Alternative Fund

The Fund was down -0.3% over the quarter, holding in reasonably well in what was another difficult environment for both equities and bonds. The Fund entered the quarter risk off, but added some exposure in August as the market rally was strong enough to have our process rise above risk levels in both the U.S. and Canada. Ultimately, markets resumed their downtrends for both equities and bonds, closing Q3 at fresh lows for the year. One of the challenges to our strategy this year, besides this persistent "whipsaw", has been a lack of traditional defensive tools, specifically the U.S. long bond which is down almost as much as equities YTD. Despite this, the Fund has become much less correlated with equity markets, and as broad equity markets dropped further into bear market territory (with the S&P 500 declining nearly -25% from prior highs at its worst point), the Fund held relatively stable and protected capital. Small losses were spread

across strategies, with Canadian equity long/short the largest contributor, and partially offset by our long position in USD vs. CAD, which rallied 7.4% during the quarter.

Our Credit Momentum strategy had small losses from yet another short-lived "risk-on" signal in high yield bonds that quickly reversed course alongside equity markets. As of the end of the quarter, the Fund is at the lower end of its risk range, and sits in cash for the Credit Momentum strategy as all bonds are in a defined downtrend. With long bonds having been "reset" in terms of rates, we anticipate that if markets do start to fully discount a recession that the long end of the curve will once again offer a source of tactical protection.

From a sector perspective, the Fund remains exposed to cheap cyclicals that benefit from inflation in energy and materials sectors, balanced by exposure in less cheap but defensive consumer staples. We remain underweight or outright short more expensive bond proxy utility and REIT sectors. The Fund enters Q4 with all markets "risk off", and with an estimated beta to equity markets of approximately 0.3.

EHP Advantage International Alternative Fund

The Fund was down -6.0% over the quarter, in what remains a particularly challenging environment for the strategy. The Fund entered the quarter risk off, but added some exposure in August as the market rally was strong enough to have our process rise above risk levels. Ultimately, markets resumed their downtrends for both equities and bonds, closing Q3 at fresh lows for the year. One of the challenges to our strategy this year, besides this persistent "whipsaw", has been a lack of traditional defensive tools, specifically the U.S. long bond which is down almost as much as equities YTD. Despite this, the Fund has become much less correlated with equity markets - as broad equity markets dropped further into bear market territory (with the MSCI World declining nearly -27% from prior highs at its worst point), the Fund held relatively stable and protected capital. Losses were spread across strategies, with Europe and the U.K. the largest contributors, and with no strategy providing positive returns. While frustrating, we do accept that there can be periods where the path of markets causes short-term "whipsaws" that cause small incremental losses while making overall defense a challenge.

Our Credit Momentum strategy had small losses from yet another short-lived "risk-on" signal in high yield bonds that quickly reversed course alongside equity markets. As of the end of the quarter, the Fund is at the lower end of its risk range, and sits in cash for the Credit Momentum strategy as all bonds are in a defined downtrend. With long bonds having been "reset" in terms of rates, we anticipate that if markets do start to fully discount a recession that the long end of the curve will once again offer a source of tactical protection.

From a sector perspective, the Fund remains exposed to cheap cyclicals in energy and financials sectors, balanced by exposure in less cheap but defensive consumer staples. We remain underweight more expensive bond proxy utility and expensive technology sectors. The Fund enters Q4 with all markets "risk off", and with an estimated beta to equity markets of approximately 0.2.

EHP Select Alternative Fund

The Fund was down -7.5% over the quarter, in what has proven to be the most difficult period to date for the strategy. We entered the quarter in a "risk-off" position, but added some exposure in August as a market rally was strong enough to have our process rise above key risk levels. Ultimately, the market resumed its downtrend, closing Q3 at fresh lows for the year. One of the challenges to our strategy this year has been repeated "whipsaws" and multiple triggers of our risk levels, causing turnover as well as incremental losses. Losses in the quarter came mostly from cheaper cyclicals in forestry, steel and discretionary sectors, which were partially offset by gains in energy stocks.

We enter Q3 with the Fund "risk off", and overweight sectors that benefit from inflation like energy and materials, with rising exposure to discretionary and financials too cheap to ignore. We are short expensive technology and bond-proxy utilities and REITs.

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EHP Global Multi-Strategy Alternative Fund

The Fund was down -4.4% for the quarter in what was a difficult environment for the strategies the Fund invests in. 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 near the lower end of our risk ranges, with a blend of strategies reflecting a mix of risk-on and risk-off markets globally. The quarter was a challenge for all of our strategies as described above in the individual fund descriptions. We enter Q4 with each of the funds in a risk-off position, and with credit allocations once again in cash with all bonds markets in a defined downtrend.

Specialty Funds

EHP Multi-Asset Absolute Return Alternative Fund

The Fund was converted to a prospectus offered liquid alternative mutual fund as of August 2, 2022. The Fund was originally launched under offering memorandum as of November 1, 2021 with a NAV per Class F unit of $10.00. The Fund finished the quarter with a NAV per Class F unit of $11.173. As per National Instrument 81-102 regulations, return calculations can only be shown after one year of track record.

In commodities, performance benefitted from multiple sources of return including trend and relative value, while volatility was a detractor due to whipsaws. In equities, volatility strategies led losses for the quarter, with whipsaws late in the quarter. In currencies, trend was a contributor to performance while relative value was flat. In fixed income, we continued to benefit from trend and relative value.

Heading into Q4 of 2022, we are well positioned to continue to provide an active inflation hedge and diversifying absolute returns to replace equity and bonds in a portfolio. Equity positioning is currently low, and we are ready to take advantage of either a continued high volatility environment or a shift towards stability. Current positioning in bonds, based on trend and relative value, is biased short with a relative preference for higher yielding Australian and European bonds versus Canadian and US bonds. In currencies we favour the value and trend of USD, GBP and JPY versus EUR, 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. 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.

EHP Global ESG Leaders Alternative Fund

The Fund launched February 1, 2022 with a NAV per Class F unit of $10.00 and finished the quarter with a NAV per Class F unit of $9.906. As per National Instrument 81-102 regulations, return calculations can only be shown after one year of track record.

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

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

The Fund has benefitted from a simplified risk model that uses the MSCI World Index as its primary risk indicator. We've had the good fortune of avoiding the whipsaw that has plagued our other equity funds this year, as well as from owning

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high-scoring ESG companies carrying a defensive tilt, meaning a lower overall fund beta than our non-ESG funds that have had exposure to more volatile energy and materials sectors.

The Fund enters Q4 in a risk-off position, and with its highest exposures to defensive staples, and reasonably priced, high quality, high ESG scoring companies in healthcare, financials, and industrial sectors. We are avoiding expensive real estate, and technology sectors.

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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