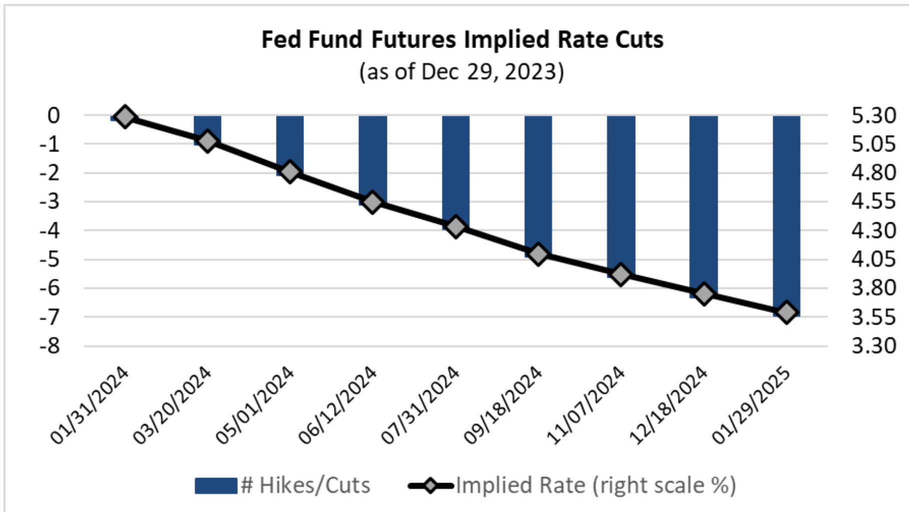
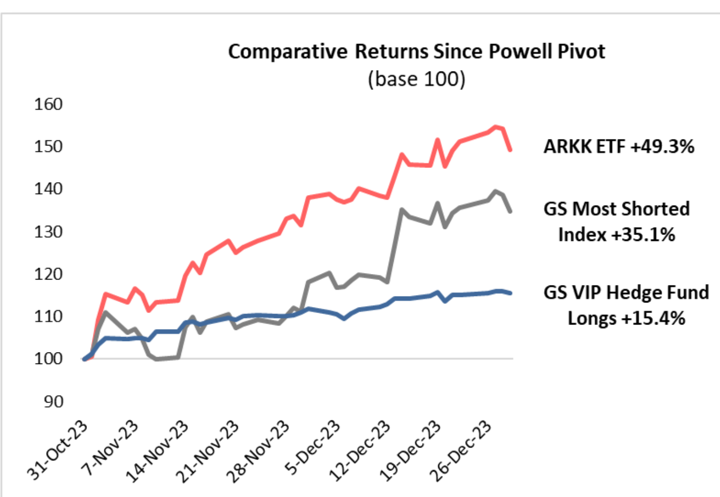
Q4 2023 Fund Commentary

Equity markets finished the quarter in a rush of buying not seen in many years, with November and December recording the best two-month gain to finish a year since the S&P 500 was created in 1957. The market went from a 52-week low to a 52-week high in just 33 days, the second fastest recovery on record. As has been the case since the Fed started raising rates, stocks and bonds moved in tandem, with the U.S long bond narrowly avoiding its third down year in a row after rallying a stunning 19.5% from the end of October. The cause, of course, was the Fed, and a dovish pause from Jay Powell that the market took to read as not only an end to hikes, but a path to imminent rate cuts. As we can see in the chart to the right, the market moved to price not only the first rate cut to occur at the March meeting, but also three full cuts by June, and six by the end of 2024. Notwithstanding the fact that the Fed's own dot plot sees only three cuts over the same period, what makes this move to discounting twice as many remarkable is that as recently as October, the consensus narrative was that the Fed was about to lose control of the long end of the curve as China and Japan both moved to sell their holdings, and that rates would explode higher. Of course, as has also been the case in recent years, positioning prior to the Fed's pivot explains a good deal of the violent nature of the move. At the end of October, we had noted that systematic sellers of equity had the highest net short positions in the S&P 500 during this cycle, hedge funds were near the low end of their net exposure ranges, and a very large bond short position had been built up, effectively all betting on a Fed that would hold rates "higher for longer," thus causing a hard landing. After the Fed meeting on November 1st, during which Powell declined to push back against the idea that rate cuts would be on the table in 2024, those positions were quickly offside, and the shorts rushed to cover. We're running out of fingers trying to count how many times we've seen these violent swings to reposition after positions have gone bad, but once again, our longs were hard pressed to keep up with our shorts, even as we went "risk on" and added beta in mid-November. Our poster child for low quality speculative stocks, the ARKK ETF, was up a whopping 49.3% from the date of the pivot (chart to the left). A more realistic measure of actual shorts, the Goldman Sachs Most Shorted Index, was up 35.1% while the Goldman Sachs "VIP" index of most important hedge fund longs could only manage a 15.4% gain over the same period, leaving the average long/short hedge fund, including some of our own funds, lagging



Source: Bloomberg



Source: Bloomberg, Goldman Sachs

meaningfully behind the rally after having outperformed equity markets during the pullback from August to October. So, the Fed changed course, or at least has appeared to for now. But the more important question is why?

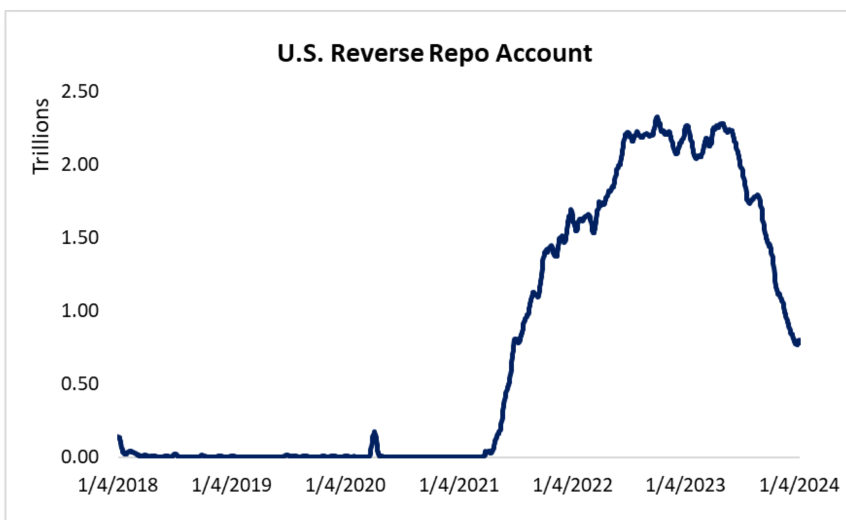
The Powell Pivot

So, why did Powell pivot? On the surface, it seems completely counter to everything the Fed has been saying about staying the course with high rates until inflation is well and truly defeated, and, with the passage of some time, just to make sure it doesn't re-emerge. This decision appears as though Powell wasted an 'easing bullet' that he may need later, with the result being a mad dash higher for markets, counter to his desire to maintain tighter financial conditions overall.

One argument is simple: inflation has in fact receded a lot. The latest Personal Consumption Expenditures Index reading, an important indicator for the Federal Reserve, has fallen to just over 3% on an annualized basis, and is actually below the Fed's 2% target when annualizing the most recent six months of data. The Fed could just be acknowledging that, as its goal of controlling inflation is 'solved,' they are getting ahead of the curve.

Another reason for them to start discussing cuts is the refinancing wall that is approaching. One reason corporate credit hasn't been a major issue this cycle, despite the aggressive rate hikes, is that most companies termed out their debt and haven't yet been affected by higher debt servicing costs. The bulk of high yield debt is shorter in duration (3-4 years), and the window of when cheaper debt needs to be refinanced will start in mid-2024. Powell could simply be acknowledging the fact that rates held this high for too long will inevitably end up in a crisis of his own making down the road.

Further to that point, the rather esoteric "plumbing" of the Fed may offer a clue. The emergency Bank Term Fund Program, which was used to bail out the regional banks last March, is set to expire at the end of Q1. The challenge with that is that the problems those banks faced – that of unmarked balance sheet losses and scarce customer deposits - hasn't actually been fixed. One indicator of bank liquidity is the Reverse Repo Account (the "RRP"), where banks and money market funds park excess reserves with the Federal Reserve overnight. We track this account as one of the three components of our "total fed liquidity" used in our newer EHP Tactical Growth Alternative Fund, as total liquidity has been closely correlated with equity returns (more on this later). After peaking in March of last year, the RRP account has fallen from just under $2.5 trillion to $700 billion today (chart to the right). At the current pace, that source of liquidity will run dry by Q2, raising the prospect that banks will show signs of funding stress again – something the Fed would very much like to avoid.



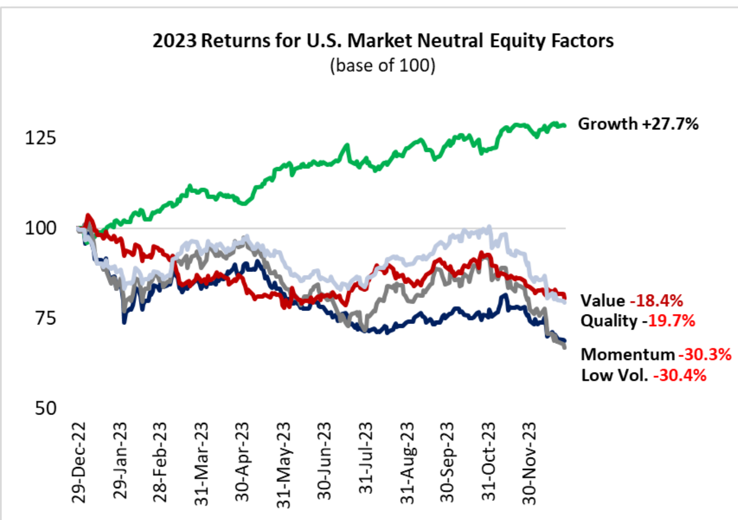
Source: Bloomberg, U.S. Federal Reserve

Recent comments from Fed minutes note that they may need to slow or stop quantitative tightening entirely as this event approaches. Powell may simply be trying to avoid a repeat of his rather disastrous 'we're a long way from neutral' episode in late 2018. This episode pressured the banks at a key moment where liquidity was also scarce and sent markets crashing. Avoiding the embarrassing rate cut pivot only a month later in early January of 2019 is almost certainly on

Powell's mind, and his acknowledgement of rate cuts to come may simply be an acknowledgement that inflation is not the only issue at hand.

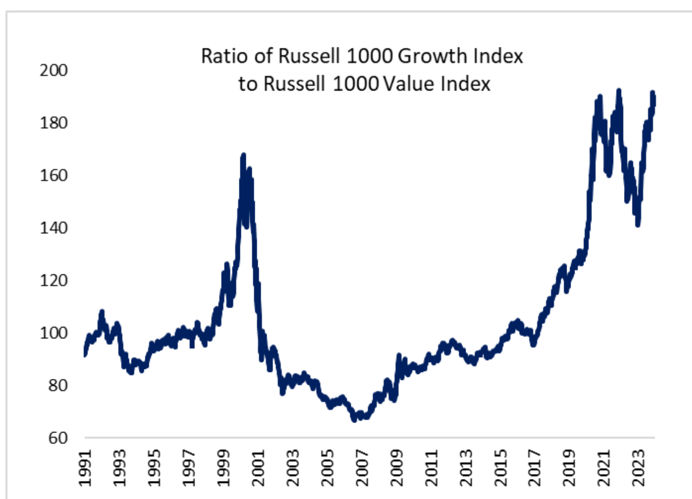
Traditional Factors Revisited

While lots of ink will be spilled on why the Fed changed course, of more importance is what it means looking forward for markets and the performance of our Funds. First off, it's undeniable that our long/short equity Funds, which rely on traditional factor investing, have faced significant challenges recently. Models that worked well for us for eight years, delivering better risk-adjusted returns than the market with much lower drawdowns, have been a source of frustration and grief for us over the last two years. As our investors know, our investment approach for equities has followed a consistent approach of buying undervalued, higher quality, lower volatility stocks that have been in an uptrend. We hedge those longs in part by shorting the opposite: expensive, lower quality companies with more volatile share prices, that are also in a downtrend. These 'factors,' which have historically been the core drivers of long-term equity returns, have been upended over the last few years, and 2023 was no exception. The following two charts are perhaps the best visual summary of the challenge the approach has faced. For the third time since 2019, growth stocks trounced all other styles, with the market-neutral Value, Quality, Momentum and Low Volatility styles all declining between -18.4% and -30.4% (left chart). Growth on the other hand had a stellar year, up 27.7%. Experiencing a decline in every factor you own while the factor you don't own rises certainly creates challenging times. Once again, the ratio of growth to value is back to historic highs (right chart below), leaving investors wondering if the concept of owning stocks that are cheap and avoiding those that are expensive is well and truly broken.



Source: Bloomberg, Morgan Stanley

Markets are always evolving, and we've noted that post-Covid, some things may have indeed changed permanently or will at least have a longer-lasting impact on markets. We've highlighted the size of the Fed's balance sheet, the "gamification" of markets, and the rise of zero-day-to-expiry options as just a few examples. We've also come to respect just how important the rise of "alternative data" has become in pricing equities. These real-time proxies for company earnings, culled from diverse sources such as credit card spending data, tracking consumer movements through cell phone data, employment and price trends from scraping job boards and marketplaces, and satellite tracking shipping and industrial activity, are truly changing the game. They create a 'have and have not' world for investors who rely solely on stale quarterly earnings reports vs. those with access to more current indicators. As most of you know, in our EHP Tactical Growth Alternative Fund, we have adapted our processes to incorporate alternative macro data. As a "factor agnostic" Fund, it can actually benefit from the "growth at any price" or "dash for



Source: Bloomberg

trash" short cover rallies that have become more frequent of late, and that challenge traditional factor models. While the Fund has performed well as a stand-alone in its early days, we've also integrated it into our EHP Advantage Alternative Fund, EHP Foundation Alternative Fund and EHP Global Multi-Strategy Alternative Fund as an ideal source of tactical returns that diversify our original approach.

All that said, while markets change (as they always will), we still firmly believe in the long-term logic and efficacy of buying high quality, less expensive stocks versus doing the opposite. While our measures of what defines these characteristics are evolving to incorporate new, more current sources of data, the core concept remains the same. Buy companies that generate consistent cash flow at a reasonable price, while avoiding unprofitable "story" stocks that have discounted perfection and are likely to disappoint. While the last few years of truly epic outperformance of growth over value has challenged this belief for many, we'll take the other side of that in the long run, and stick to our core discipline.

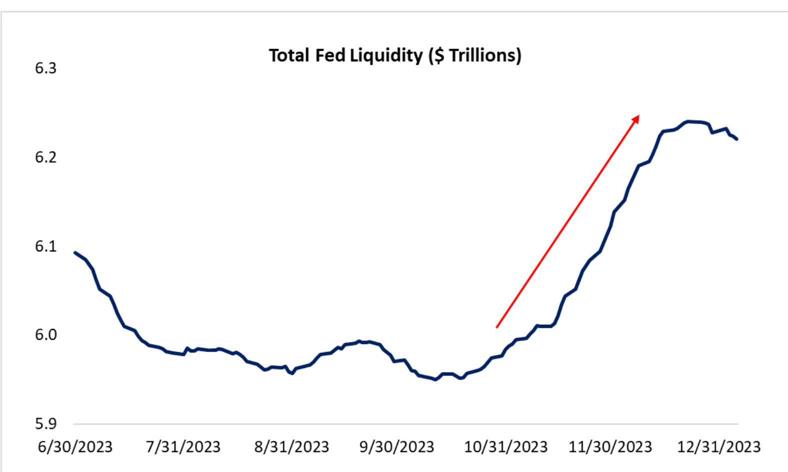
The Roadmap Forward

As a firm, we've evolved over the years, bringing in additional portfolio managers with expertise in expanded asset classes such as credit markets and multi-asset futures. Additionally, we have expanded our range of data and indicators to include real-time macro 'nowcasts', fund flows, sentiment, and liquidity measures to better position our investments. Here, we review our current position as we enter the new year and the potential implications for future returns.

Tactical (short-term)

Markets finished the year very overbought after the flurry of repositioning that took place in November and December. Technical and sentiment indicators of all sorts are flashing warning signals in this regard, with many hitting levels that occur less than 1% of the time historically. Fund flows into the SPY ETF were massive in December, the largest on record, highlighting the desire of investors to grab exposure in the broadest form possible. That said, market tops aren't like market bottoms – they tend to be a process, not an event. While the data suggest a period of digestion is needed before markets can continue the new uptrend, returns a month out are more likely than not positive after overbought events like these.

Turning to our macro 'nowcast' data, the picture becomes a bit more muddled, with our U.S. growth showing signs of weakness, but with soft survey data still strong. Total Fed Liquidity (chart to the left) had been relatively flat over the summer but accelerated higher at the end of October, coincident with the Powell Pivot, as the reverse repo account drain discussed earlier more than offset any quantitative tightening and raising of funds at the Treasury. These surges in liquidity can override weakness in economic growth and have become more and more correlated with the performance of all stocks, and in particular growth stocks. As the indicator is now showing signs of rolling over, we'll be watching this measure closely over the coming months as the RPP account runs dry given it is likely to coincide with a patch of weakness for markets all else equal.



Source: U.S. Federal Reserve

China remains a wildcard in our models; its growth has been disappointing throughout the year, following the anti-climactic reversal of its Covid lockdown policies at the start of 2023. The hoped-for rebound was short-lived, and other than a few stimulus-driven pops along the way, they haven't been able to reaccelerate in a way that would give a sustainable boost to cyclical markets. Of no surprise, the energy and metals markets are highly correlated to these China growth cycles. For now, our signal is 'risk on' but also showing signs of topping out again, and we'll update clients as this changes.

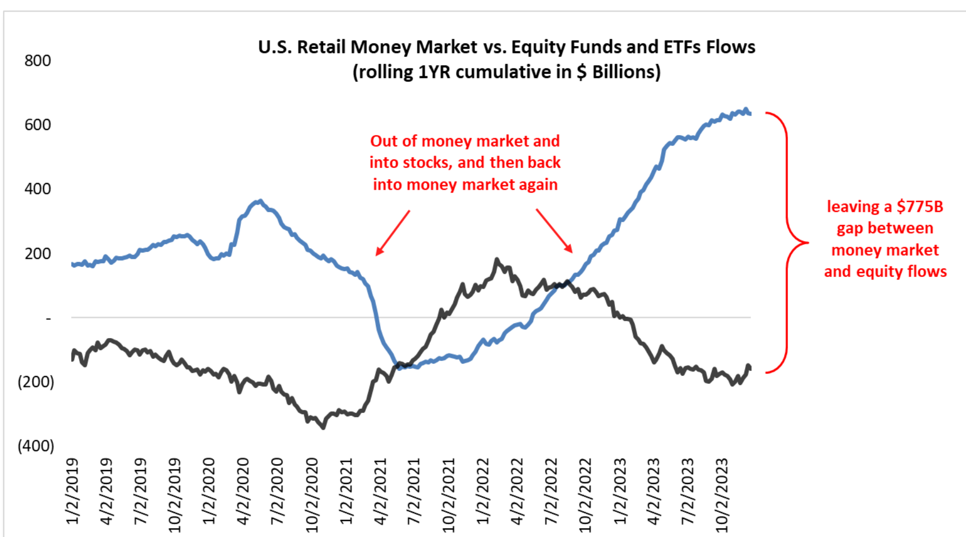
Finally, investor positioning, which was in part responsible for the massive move at the end of the year as both systematic and hedge fund investors rushed to buy after coming into the Fed meeting underweight, has now reversed entirely and risks becoming a source of selling if markets weaken. CTAs are nearly max long (again) and would be sellers in a down market, although we are some distance from their sell triggers. Hedge fund net exposures are in the 86th percentile for being long (source: Goldman) and aren't a source of immediate buying. Net-net, from a short-term tactical perspective, we enter the year 'risk on', but aren't far from levels that would tilt us to neutral on a number of fronts.

Trends (medium term)

As we look a little further out beyond the short term, there are some bigger trends that we think are worth noting. Obviously, the elephant in the room for factors/investment styles, is the ongoing outperformance of growth over value. In fairness to growth, the earnings acceleration of key tech companies, often referred to as the 'magnificent seven' and driven by AI spending, has been pretty stunning. We can't recall a time when a mature company like Nvidia has seen such a massive increase in profits in such a short time period. It has been a tale of two markets for years now, with an ongoing manufacturing recession alongside a tech boom. If we are indeed in a new regime, however, of normalizing inflation and lower rates, might that mean that the more cyclical side of the economy can start to recover? If so, then investors, who are currently quite underweight in these cheaper sectors, may see them suddenly have strong cash flows again. This could lead to a rotation away from the tech winners, whose top earnings growth rates may now be behind them. Our long/short equity Funds are positioned for just such an event, and remain overweight these cheaper cyclical sectors like materials, industrials, and financials.

One of the forces that has made the economy so resilient in the face of high inflation and higher rates has been the ability of consumers to continue to spend. With a labor market with plenty of jobs readily available, there has been less need for consumers to be cautious in their spending. Also, as we've noted in the past, a substantial amount of cash found its way into consumers' pockets through Covid stimulus measures, and this situation hasn't changed much since then. Despite cost pressures, total consumer cash levels have remained elevated, with nearly $16 trillion in term deposits, checking accounts, and money market funds.

One of the themes we've been discussing with advisors is where this cash may go next. For now, investors have been happy to move it into Money Market Funds, with total funds in MMFs rising from approximately $3 trillion pre-Covid to more than $6 trillion now. That figure includes all investors, including mutual funds and pension funds, who will also hold excess cash in MMFs where they have been able to earn a healthy yield of late. Anecdotally, at the retail level, we have spoken to many advisors who have upwards of 25% of their books in some form of cash (GICs, MMFs, or HISAs), often at their client's request. These portfolios are well insulated from a recession if one

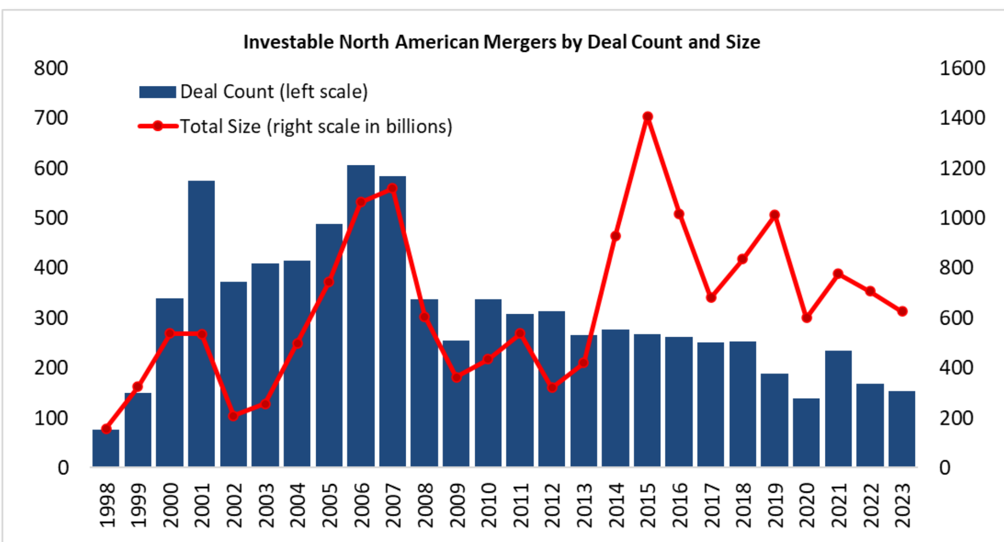


Source: Bloomberg, ICI, Federal Reserve

should ever actually appear, but they are not at all insulated from the 'right tail risk,' which refers to the risk of a stock market that moves unexpectedly higher as rates (and reinvestment options) move lower at the same time. It's inevitable, in that scenario, that there will at some point be a 'chase' back into stocks. That has not yet happened as the chart on the prior page shows. If we look at U.S. retail money market holdings, they were indeed a source of funds for the rush into stocks in 2021 that marked the peak speculation for the cycle. Those flows then reversed out of stocks and into MMFs over the last few years. Are we in front of another wave of buying equities again as rates decline? Time will tell.

It's also quite possible that investors would rather move up the risk scale in 'spread like' investments before they allocate more fully to equities. We'd highlight our EHP Strategic Income Alternative Fund as a "defensive" way to play high-yield credit given its approach to being long higher quality credits and short lower quality ones. While credit spreads, at 323 basis points above Treasuries, are not as compelling by themselves, when considering the all-in yield of the fund at 7.6% and a tailwind of declining rates, forward returns should be healthy. They come with built-in downside protection from the lower quality short book, should the now-consensus soft-landing scenario turn out to be incorrect.

In merger arbitrage, we find spreads that are a bit tight currently, owing to the fact that deal flow has been anemic. While the average spread appears more than adequate in the 10%+ range, that average continues to be bifurcated between much tighter higher quality deals, and much riskier deals with wider spreads that have regulatory hair on them. We've been frustrated all year with deals that timed-out before we could realize gains due to closing delays and emerging competition hurdles, as well as a few surprise deal breaks. Normally, we would see at least an equal number of positive catalysts such as competing bids or price bumps, but in 2023 there were virtually none. Arbs that made money last year had the good fortune to avoid the deal breaks or were willing to "grin and bear it" and ride out the long timelines and deal volatility to crystallize gains on deals that often did eventually close. Deal volumes have been lackluster for three of the last four years (see chart). It is expected that, as rates decline and corporations gain a better sense of future financing costs, mergers will once again accelerate. This offers another alternative for the piles of cash that will be earning progressively smaller returns.



Source: Bloomberg

After a year of difficulties for some of our time-tested strategies, and successes for newer approaches, we look forward to what comes next, knowing that balancing a consistently held discipline, while being open minded to an ever-changing market is key to any investor's long-term success. We thank you for entrusting us with your and your client's hard-earned dollars and wish you the best of the new year.

Fund Specific Commentary

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

Fund	1M	3M	YTD	1YR	3YR	5YR	Inception
Defensive / Conservative Funds:							
EHP Foundation Alternative Fund	1.2%	3.2%	-3.7%	-3.7%	-0.2%	1.1%	1.6%
EHP Global Arbitrage Alternative Fund	0.2%	-1.6%	-2.9%	-2.9%	-0.8%	2.3%	3.8%
EHP Strategic Income Alternative Fund	2.4%	5.0%	5.9%	5.9%			2.8%
EHP Multi-Asset Absolute Return Alt. Fund[1]	-0.7%	-2.8%	-5.9%	-5.9%			0.9%
Core / Performance Funds:							
EHP Advantage Alternative Fund	-1.0%	-0.1%	-12.0%	-12.0%	-1.7%	1.2%	0.8%
EHP Select Alternative Fund	0.3%	-2.5%	-13.8%	-13.8%	-5.8%	3.1%	2.2%
EHP Global Multi-Strategy Alt. Fund[1]	3.2%	4.1%	-2.3%	-2.3%	-0.4%		-0.4%
EHP Tactical Growth Alternative Fund*	Dec 29th NAV: $10.7002 + $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 3.2% during the quarter, with gains across strategies, but U.S. long/short equity performed the best as a broadening rally in November and December saw dividend-paying long positions move higher, although partially offset by a sharp rally in shorts. Credit Momentum added to returns as high-yield debt rallied alongside U.S. equities and long bonds. Our newer tactical macro strategy, added at an approximate 10% weight in August, performed well, contributing 80bps of positive performance over the period.

The Fund has net exposure to high dividend-paying stocks in materials, financial, and technology sectors, while underweight in consumer discretionary and defensive utilities and staples where yields are lower or less sustainable. Notably, real estate continues to rise in the ranks as yields there have become attractive against a backdrop of declining interest rates. At the end of the quarter, equity allocations are “risk on” in both Canada and the U.S., as well as in our tactical sleeve, and our Credit strategy is allocated to high-yield debt.

EHP Global Arbitrage Alternative Fund

The Fund was down -1.6% over the quarter due to a deal break on a smaller Canadian deal (Velan), blocked by the French government. Spreads were stable overall, ending the quarter at a wide average of ~10% annualized. The bifurcation continues between uncomplicated deals trading in the 6-7% 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.

Spreads are slightly tight, with many new deals falling into the category of high-premium biotech with potential regulatory risk, or merger-of-equals with little to no premiums. The Fund is biased against owning deals with regulatory risk to avoid being “timed-out,” a part of our risk process. We are optimistic that a fall in rates and a potential “soft landing” will encourage a wave of consolidation, opening up opportunities for the Fund.

The Fund participated in 41 traditional arbitrage opportunities during the quarter, holding 15 positions as of the end of the quarter. SPACs and SPAC warrants account for approximately 1.8% of the Fund, as we let our SPAC portfolio roll off with redemptions. The average SPAC common share trades at a slight premium 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.

EHP Strategic Income Alternative Fund

The high yield market started Q4 on a weak tone, down -1.2% in October, but turned around in November (up 4.5%) and continued its upward trajectory in December (up 3.7%) for a total quarterly return of 7.2%. With a lower overall risk exposure compared to a long-only index, the Fund was up 5.0% over the quarter, with all sub-strategies contributing positively. The core long-short credit strategy had a 482bps positive contribution, with longs outperforming shorts despite the sharp rally. Credit momentum added 102bps of performance, while our risk arbitrage allocation contributed 31bps positively. On a full-year basis, core long/short credit contributed 727bps, credit momentum 77bps, and risk arbitrage 27bps. Although credit momentum had a positive contribution, its performance was negatively impacted by the unusual market choppiness that characterized 2023. However, in the longer run, this sub-strategy's ability to provide both a liquidity sleeve (using liquid high yield ETFs) and the ability to rotate to defensive long-duration treasuries during times of credit market stress adds a measure of safety and protection to the Fund, making its short-term underperformance acceptable.

Credit markets were strong across the board in Q4: the Bloomberg Barclays US Aggregate Bond Index was up 6.8%, and the Bloomberg Barclays US Corporate High Yield Bond Index was up 7.2%. Within high yield, CCC credits were up 6.8%, B credits up 6.8%, and BB up 7.4%. The fourth quarter primary market got fresh impetus from the Federal Reserve signaling readiness to pivot to rate cuts next year, pricing US$41 billion of paper. Investment-grade corporate bond spreads ended the quarter at 99 basis points over Treasuries, 31 basis points tighter than at the end of 2022. The risk premium on high-yield debt ended the quarter at 323 basis points, 146 basis points tighter than at the year's end. The US 10-year treasury rate ended the quarter at 3.88%, ironically the same level as at the end of 2022.

At 323bps, high yield spreads are not particularly attractive in isolation (with longer-term averages in the 300-400 basis points range), but with all-in yields at 7.6% and rates falling, high yield is expected to provide attractive returns going forward.

We continued to run our systematic portfolio management process in Q4, albeit at a still reduced churn given the wider bid-ask spreads and implied trading costs. Market sentiment changed quickly after the Fed Pivot in November, and the Fund moved to a fully risk-on position. Our ability to quickly adapt to changing market regimes is critical, especially as interest rates remain high by historical standards. With maturity walls approaching in 2025 and 2026, a wave of defaults in the future is conceivable. Moreover, our basket of short bonds, which have a much higher probability of default (about 10x higher than our longs), should offer good protection if a soft landing is not achieved and a slowing economy triggers a default cycle.

We enter Q1 of 2024 with credit risk at the lower end of its range, with a duration of 2.9 and net yield of 7.1%. The Fund's largest sector exposure is financials at 30%, including Insurance (but no banks), followed by energy at 12%.

EHP Multi-Asset Absolute Return Alternative Fund

The Fund was down -2.8% over the quarter, with losses coming from trend and volatility strategies, while the relative value strategy produced small gains.

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

Heading into Q1 of 2024, we are well positioned to rebound from abnormal returns in 2023 and provide an active hedge against volatile environments caused by inflation or recession and diversifying absolute returns to replace equity and bonds in a portfolio. Equity positioning is currently slightly 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 Australian bonds versus British and European bonds. In currencies we favour the value and trend of the EUR and JPY versus AUD and CAD. Commodity trend and relative value currently favour the long end of curves over short, with relative value positioning providing continued active inflation protection. As always, the Fund will actively adapt positioning to changes in markets and volatility that will inevitably come with developments regarding supply, demand, inflation, central banks, COVID, geopolitical tensions and otherwise.

Core / Performance Funds

EHP Advantage Alternative Fund

The Fund was down -0.1% during the quarter, with mixed performance across strategies. U.S. long/short equity had gains as the broadening rally in November and December lifted even the more cyclical stocks we are biased towards. However, returns were held back by shorts, as the most shorted and most volatile “junk” stocks had much larger gains on average than longs. In Canada, which shifted to a risk-on position later in the quarter, shorts again overwhelmed our longs, despite being 40% as large on average, resulting in small losses for the equity strategy. Our newer tactical macro strategy, added at an approximate 20% weight in August, performed well, contributing significantly to the positive performance over the period.

From a sector perspective, the Fund has net exposure to less expensive, more cyclical stocks in materials, industrials, and financial sectors, as well as a weighting to technology and semiconductor stocks via our tactical growth allocation. The Fund remains underweight in consumer discretionary and defensive healthcare, utilities, and select REITs where cash flows are constrained or refinancing risk is a concern. At the end of the quarter, equity allocations are “risk on” in both Canada and the U.S., as well as in our tactical sleeve.

EHP Select Alternative Fund

The Fund was down -2.5% over the quarter, with losses coming entirely from short positions. Despite being 40% as large as longs on average over the period, the shorts were up several times more than long positions. These "dash-for-trash" rallies, characterized by either a “growth at any price” or “junk” rally (or sometimes both), have become a hallmark of the last few years. Despite an exceedingly difficult few years, as central banks move to normalize rates, we expect one of two paths to emerge. Either a “soft-landing,” where the prices of the cheap cyclicals we hold are simply too low to ignore, similar to 2016, or a much harder landing than expected, leading to a repricing lower of the lower quality shorts we hold. It's worth noting that the Fund had positive performance in March of 2020 despite a -17.4% S&P TSX Composite decline.

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

EHP Tactical Growth Alternative Fund

The Fund offers a unique approach to macro and growth investing and is our first to 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.

We were admittedly surprised by the market strength in November as it coincided with a period where both China and U.S growth was slowing, and U.S. total Fed liquidity was poised to roll over. However, markets can sometimes act outside of the immediate fundamentals, and the Powell Pivot drove a massive positioning readjustment as shorts and underweight investors rushed to reposition to a now assumed “soft-landing, rates declining” environment. The size of the short positions in bond futures as well as equity indices were partly responsible for the extent of the surge, but Fed Liquidity also turned sharply higher at the same time, often catalyzing stock movements, especially in growth stocks. This liquidity increase, coupled with a somewhat tepid turn higher in China growth, had us adding back risk as the month progressed, favoring tech and metals and mining sectors, which drove the positive performance into year end.

While the Fund is relatively new, we have growing confidence in the efficacy of the alternative data indicators we are tracking. We intend to expand the set of available indicators in the coming year, initially focusing on aggregate fund flows and investor crowding – factors that we frequently discuss as being drivers of short-term returns. 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. We enter the new year with such a position, having partially hedged our downside in the fund by buying out-of-the-money puts, fully funded by selling covered out-of-the-money calls. Given the statistically significant overbought levels the market reached by year end, these types of positions have a positive risk-reward outcome.

As we enter Q1, the Fund is risk-on across the bulk of its metrics, although we are observing signs of potential weakness in both the U.S. and China, as well as Fed liquidity potentially topping out. Given the overbought conditions reached at year end, some early weakness as markets digest the gains wouldn't be surprising. Our concern is that if our growth nowcasts turn lower, it could provide the market with the necessary impetus to seriously test the resolve of recent late-to-the-party longs. As always, we’ll act in accordance with the data and provide timely updates to our clients as the portfolio undergoes key shifts.

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

The Fund was up 4.1% 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 Q4 in a risk-off 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 blend of strategies reflected a mix of “risk-on” and “risk-off” markets globally. The Tactical Growth allocation was responsible for the largest portion of the quarter's returns, followed by the Strategic Income allocation, both of which had strong performance towards the year's end. Detractors to performance were the Select and Arbitrage allocations.

As we enter the new year, the Fund maintains similar fund-level weights but with their respective underlying strategies now in a “risk on” position. 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.

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