ehp | FUNDS

Q2 2022 Fund Commentary

After a tough first quarter for markets, Q2 was downright miserable, with the S&P 500 down -16.5% for the period and -20% YTD. No equity market was spared, with the Nasdaq down -29.2% from recent highs, and the MSCI World Index down -17.7%. The resource heavy TSX fared better, but was still off -16.5% for the quarter and -11.3% on the year. Part of what has made this market decline so difficult is the "no place to hide" nature of it, with typically defensive U.S. long bonds down -23.2% on the year, and the Barclays Aggregate Bond Index down -10.3%. All told, it has been one of the fastest declines of asset values in history, and the worst overall start to a year since the 1930s.

Our funds have done considerably better than markets for the most part, but still worse than during the Covid pandemic bear market and 2018 sell-off, and it's worth an explanation as to why that has been the case. Part of the answer has been that our typical risk mitigation tools – specifically rotating to U.S. long bonds and having USD exposure, have both been ineffective this year. We've avoided losses in bonds by sitting in cash, but they are typically a partial offset to equity beta in bear markets. The other factor that has been a challenge is that our risk process can be somewhat path dependent. A bear market that rolls over and stays in a relatively strong downtrend is much easier to hedge than one that has sharp counter-trend rallies, as the latter causes us to buy back risk only to take it off again as the market turns lower again. We've seen these "whipsaws" multiple times across multiple markets and asset classes. Equity markets have been whipsawed more than once, including the late March rally, and both long bonds and high yield have generated buy signals that have quickly reversed.

Factors have also been less effective during this bear market, with the "quality" factor, which forms a large part of our value models, actually *down* -7% on the year, versus +39% during the Covid bear market and +21% during the 2018 sell-off. In fact, we can find no other bear market period in our historical data where high-quality stocks underperformed low quality ones. One possible explanation is that the sell-off in large cap tech stocks (which in general have high quality metrics) has dragged down the entire basket of high-quality stocks irrespective of sector – a true "baby with the bathwater" event. To add to the grief, June saw a large and sudden trend reversal in the remaining sectors that had been working: energy and materials, with the energy sector down -25% in just two weeks despite having the strongest relative fundamentals and price momentum. It seems that the market collectively decided that the 2008 recession playbook (when energy was crushed) was the correct one for this cycle as well, and late longs rushed to sell while covering shorts in junkier, low-quality stocks. We'll discuss later why we think this view on energy may be misguided this time around.

While we've been frustrated by the "if it can go wrong it has" environment, there is room for optimism as we look forward. While this sell-off has been without precedent in a number of ways, we don't believe it is a permanent change in how markets function. The rise in interest rates and the decline of the U.S. long bond, for instance, has "reset" the asset class, and we suspect that if we do enter a recession, they will once again prove highly useful at protecting capital, as will having USD exposure. As of the end of the quarter, we are once again getting a buy signal in defensive long bonds, and as we'll explain later, the rate environment may now be more supportive for this position than generally believed. We've also recently launched the EHP Multi-Asset Absolute Return Fund, managed by Chris Orsi, which has done exceptionally well this year, mitigating tail risk by using a more diverse set of tools, including a volatility program as well as a broader set of currency and asset class hedges. With some real-life track record under our belt, we're now comfortable using these tools more broadly going forward to help manage risk across the funds if this difficult environment persists in the future.

Is anything cheap enough yet?

So far, this market decline has been entirely from multiple compression, as actual corporate earnings have increased quarter over quarter, and are up 21% from the prior pre-pandemic highs of Q4 2019. Multiples need to contract as interest rates go up, given that the risk-free alternative becomes more and more attractive, and future cash flows

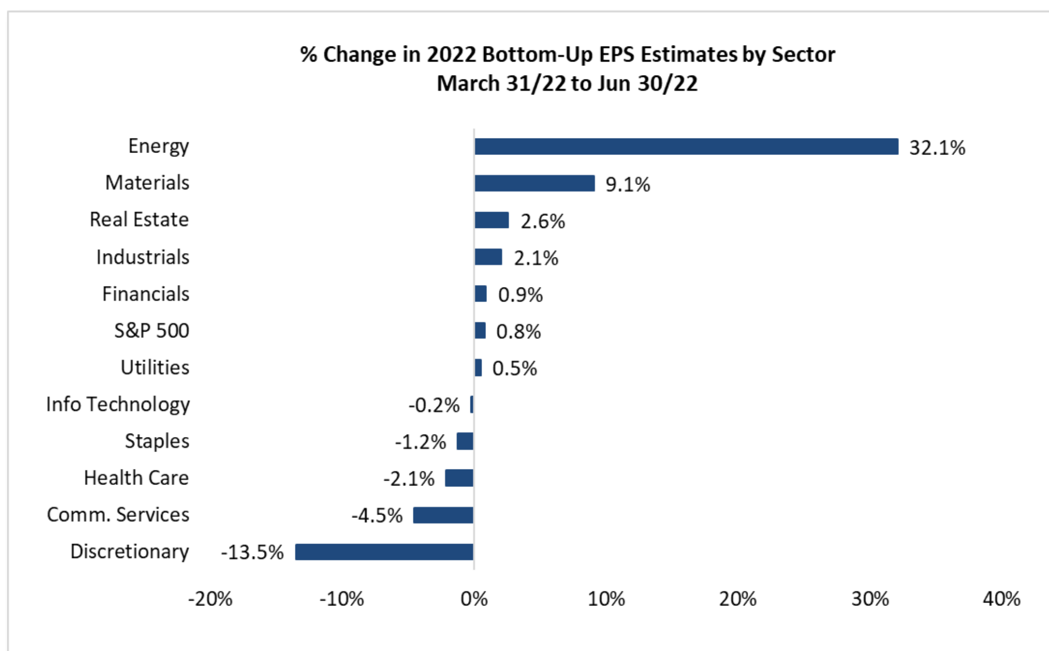
discounted with higher rates are worth less than they were before. Earnings remain one of the last expected shoes to drop, with a typical peak-to-trough decline of ~15% for index EPS in a recession. So far, bottom-up analyst forecasts haven't adjusted, and estimates for the full year actually *rose* slightly as the quarter progressed (see chart).

Change in Analyst Bottom-Up S&P 500 EPS Estimates

	March 31, 2022	June 30, 2022	Change
Q2 EPS Estimates	56.05	55.44	-1.1%
Full Year 2022 EPS Estimates	227.83	229.63	0.8%

Source: FactSet

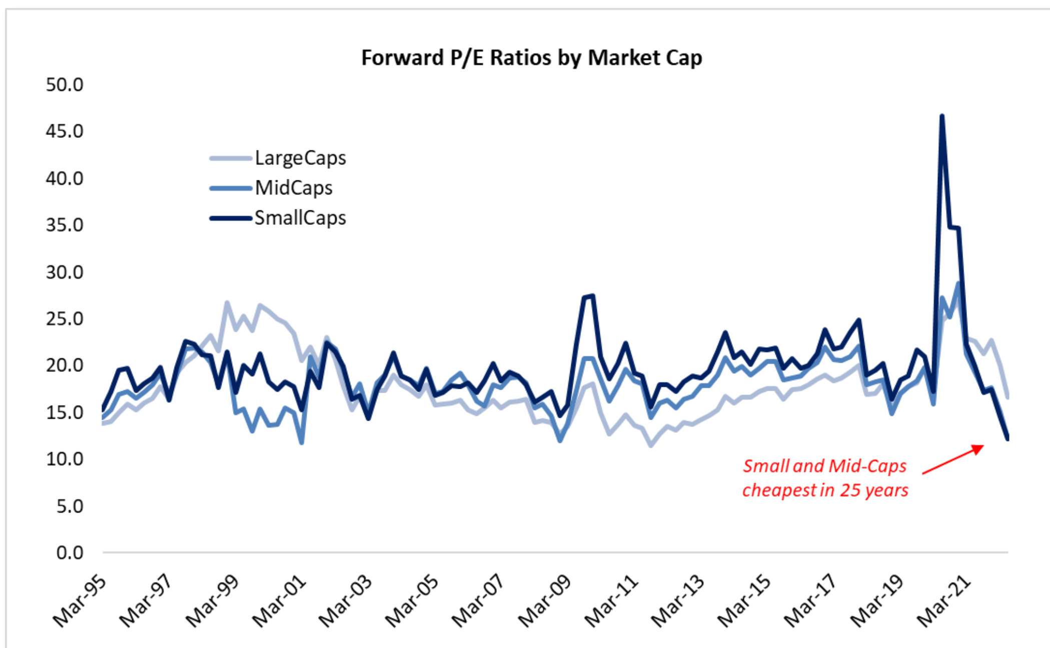
While analysts do tend to "chase" recent results and hang on to targets longer than they should, there is clearly no wholesale panic yet for corporate earnings. It's worth seeing exactly where this overall increase in earnings is coming from. Perhaps predictably, the sectors where analysts have adjusted expectation the most are inflation beneficiary energy and materials. Consumer discretionary and communication services (where a number of consumer tech stocks like Netflix and Facebook/Meta reside), are the biggest source of estimate declines after a rather disastrous Q1 for the two sectors.



Source: FactSet

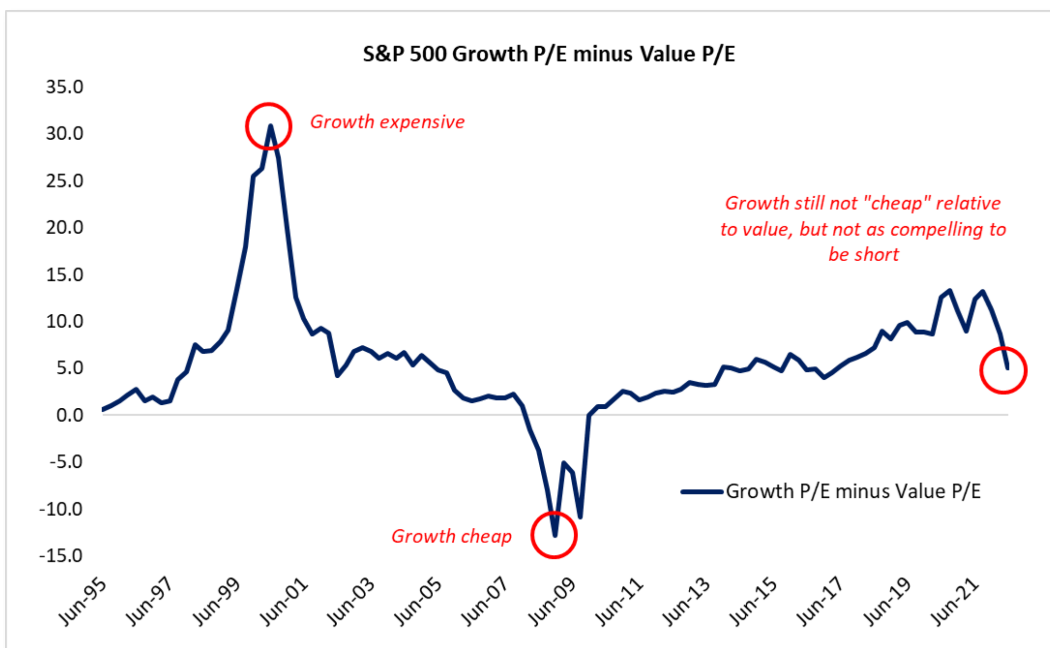
Markets discount the future of course, and so the real question may not be "are earnings going lower", but rather "have stocks fully discounted the coming earnings decline yet?" On this front there are a few things we can look at, including valuations, and sentiment. Starting with valuations, while there is no doubt that markets peaked in 2021 at rather outrageously high valuations – a fact that had been a source of concern for us for a number of years now. Stepping back, we'd argue that markets overall are no longer expensive *assuming* that interest rates don't need to be materially higher in short order from here. The chart below shows forward P/E ratios by market cap for the S&P 1500, and highlights that small-caps, with more than 60% of its index in more cyclical financials, industrials, technology and discretionary sectors, is the cheapest in more than 25 years. Mid-caps are similarly cheap. Even large-cap stocks are much more reasonably priced at 15.7x forward vs. a longer-term average of 14.6x.

ehp | FUNDS



Source: Bloomberg

From a sector perspective, cyclicals are at least 2 standard deviations cheap historically vs the S&P 500. Growth stocks remain expensive relative to value, but even then, have corrected enough that the "easy" money being short growth has likely been made (see chart). Our portfolios are in general neutral on growth stocks now, with many of them having fallen too far, too fast, and becoming "dangerous shorts" in our risk process that seeks to avoid being short stocks that are most likely to have sharp, sudden rebounds.

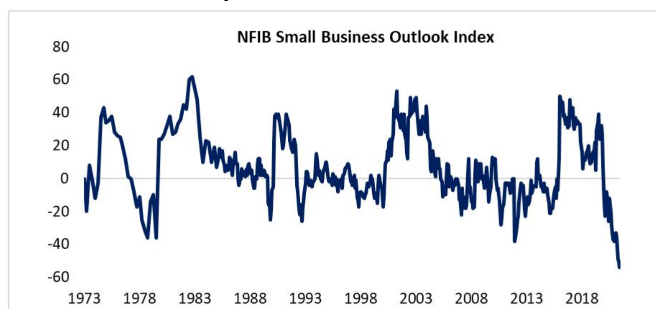


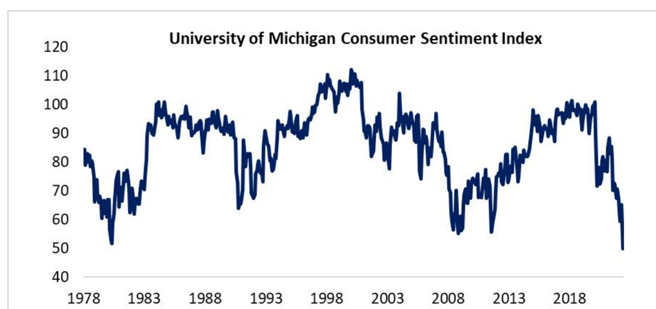
Source: Bloomberg

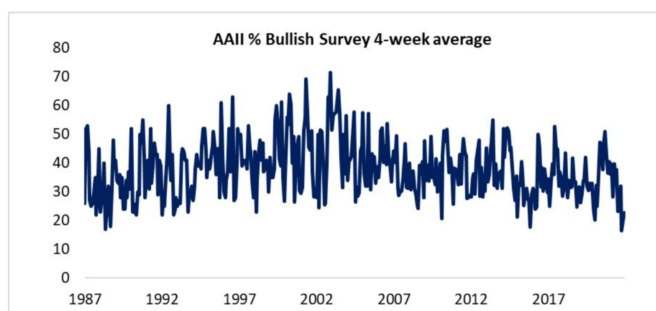
ehp | FUNDS

Turning to sentiment, it would be hard to characterize the mood of businesses, consumers, and market participants as anything other than miserable. Below we include four surveys that cover different parts of the economy, but which all have the same message: sentiment is at historic lows in terms of expectations for the economy and market performance. Small business outlook is at all-time lows going back to 1973. Consumer sentiment is similarly bearish, the lowest since 1979. Money manager expectations for the economy are also at trough levels historically.

Chart Pack of Misery







Source: Bloomberg, BofA

But are sentiment indicators useful? While they are not overly adept at picking exact bottoms, they are quite good at predicting the forward path of markets over medium timeframes. Here we take the AAII Bull Index, which surveys a retail group of investors on a weekly basis on whether they are bullish or bearish. Since 1992, there have been 24 periods where the 4-week average of bulls was at or below 25%. Of these 24 periods, in 100% of cases the market was higher 12 months out, with a median return of 17.6% and a worst return of 3.7%. The AAII Bull Index hit 23% at the end of January, and has been stubbornly stuck below 25% for most of the year. Eventually, sentiment gets so negative that there really is no one left to become negative, and the bulk of those that want to sell have done so. This sets the market up for a positive reaction to bad news, as we have started to see with some stocks. Micron (MU) is a good example of a company that guided down revenue by 21% for their recent quarter due to a "significant reduction" in demand. But given that's its already trading at only 6x earnings, the stock was only down 2% on the news. This earnings season will be an important one, and we enter it with some of the lowest valuations and worst sentiment on record. We'll be watching closely for signs that bad news is actually perceived as good news and how that may help form an overall market bottom.

Median S&P 500 Returns After AAII 4-week avg <25		
+3 months	+6 months	+12 months
5.1%	10.9%	17.6%

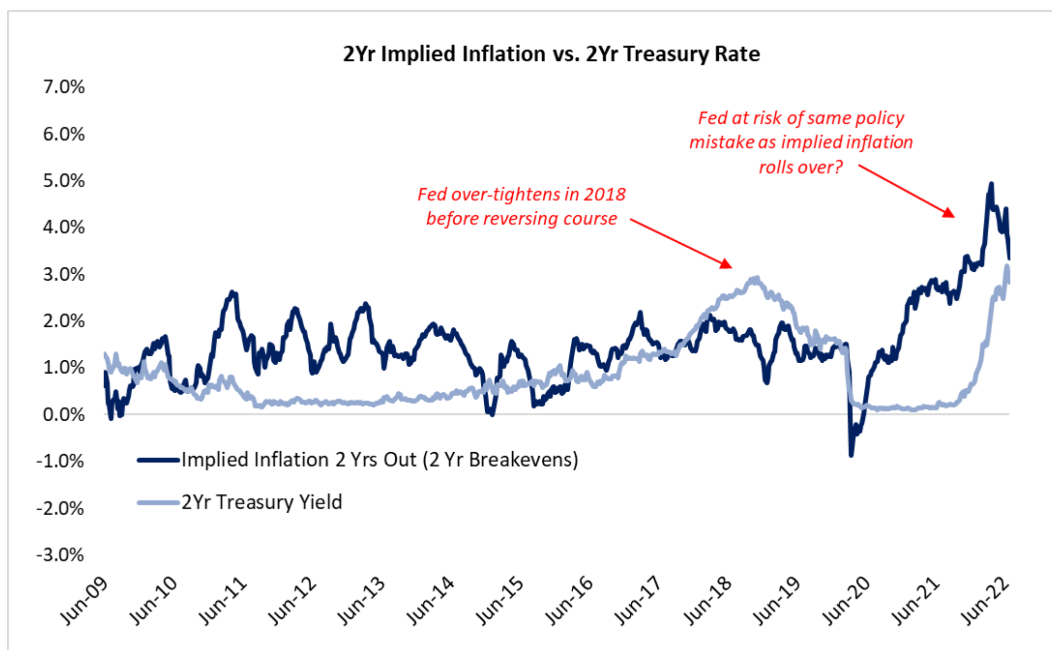
Worst S&P 500 Returns After AAII 4-week avg <25		
+3 months	+6 months	+12 months
-6.1%	**-9.5%**	3.7%

Win Rate S&P 500 Returns After AAII 4-week avg <25		
+3 months	+6 months	+12 months
81%	95%	100%

ehp | FUNDS

Everyone is an inflationist now…

While we were vocal in our belief that the huge fiscal stimulus unleashed during the pandemic would be very likely to cause inflation, we'd now argue that we've seen the worst of it in terms of broad-based price increases – a view that now seems in contrast to the prevailing narrative. Historically, periods of rapidly rising inflation like we saw post-WWII and during the 1970s have been followed by an equally fast decrease in inflation once it hits its peak. Importantly, once there are successively lower inflation prints, equity markets have tended to have sharp rallies. If we look at the current sources of inflation, a number of them have already rolled over, including used car prices, durable goods, and consumer goods of which there is now an inventory glut at the largest retailers. The port of Shanghai has reopened, and "port exits" have jumped higher as goods begin to move again. The 2-yr breakeven rate, which is essentially the market's view of where inflation will be in two years, has recently rolled over fairly sharply. The general view is that the Fed needs to raise rates to match the rate of inflation if they want to keep it under control. On this measure though, the Fed may already be there, with actual market conditions having tightened *a lot* in a very short period of time, and with the 2-yr yield more or less matching 2-yr breakevens (see chart). While rate increases will backfill these expectations in upcoming Fed meetings, the market is now discounting a rate *cut* in Q1 2023. There is a real risk that the Fed over-tightens as they did in 2018, but even so it's becoming more and more clear that the path of both inflation and rates is not "indefinitely up" as many currently fear, just as the path wasn't "deflation forever" as was predicted pre-Covid.

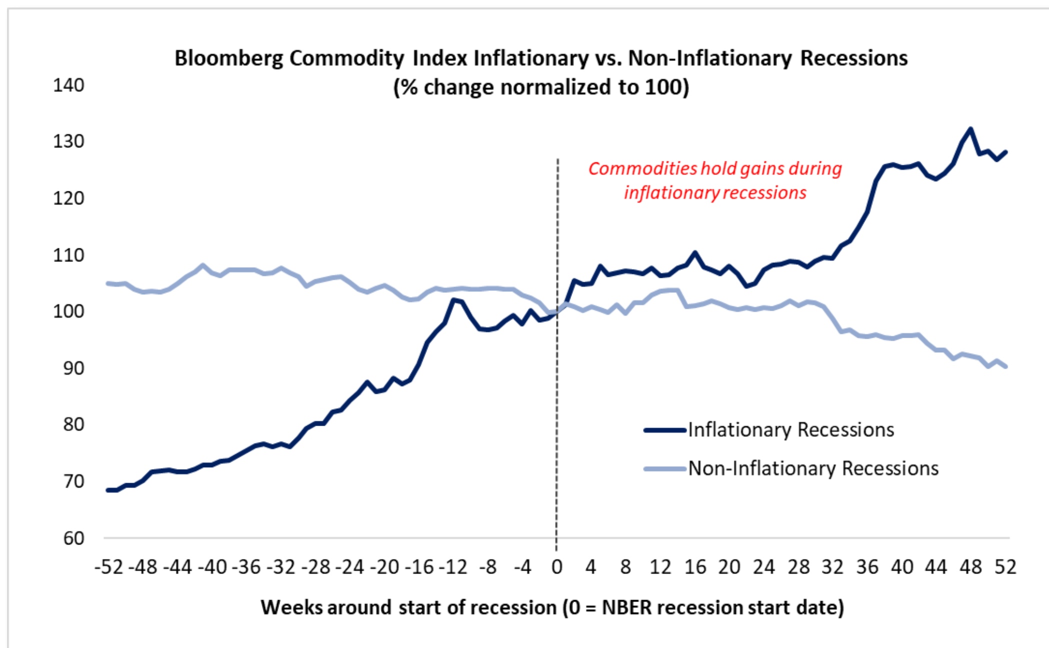


Source: Bloomberg

Energy the exception?

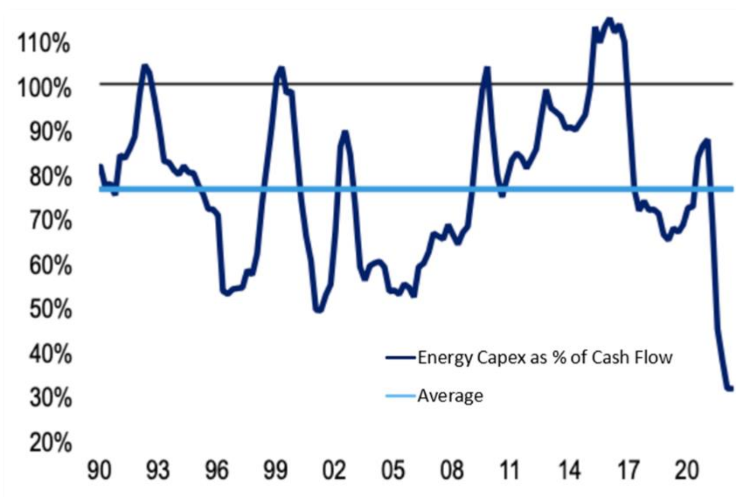
The 25% sell-off in energy stocks in June surprised us given that the same weakness wasn't present in the longer-term pricing of crude oil itself. The price of crude for delivery 1 year out fell by about 5% in June, and the price for delivery 3 years out didn't move at all. Given that energy is one of our largest weights in many of our funds, we'll take a moment here to defend the view that the sector remains one to own. Importantly, we don't believe that crude oil needs to stay at current levels for energy stocks to remain good value. The current curve puts crude oil at $90/bbl a year out, and $75/bbl in three years. At $75 oil (which would go along way to decreasing overall inflation), energy companies would still have 10-15% FCF yields at current share prices, which would be in turn be above historical yields. Further, the 2008

playbook where energy prices fell rapidly due to demand destruction may not be the correct one for this cycle. There is a distinct difference between how commodities perform during inflationary recessions vs. non-inflationary ones. Since 1960, which is as far back as the Bloomberg Commodity Index has data, there have been three recessions where inflation was the predominant cause, and six where it was not. The chart below shows the average of commodity index returns before and after the start of these two types of recessions, and it's clear that despite check-backs in price along the way, the general trend for commodities is higher during inflationary recessions.



Source: Bloomberg, NBER, EHP Funds

Additionally, energy companies aren't spending to increase production despite record operating cash flows (see chart). After years of low prices and restrictive policy as it relates to traditional energy production vs. ESG mandates, producers face an uncertain longer-term environment and are loathe to plow profits into long-term projects, preferring to buy back shares and pay dividends. In a market where policymakers are demanding that companies produce more now, while at the same time suggesting their industries need to disappear long-term, it's not clear what incentives will be needed for companies to invest in future production rather than hoarding or returning cash.



Source: BofA US Equity & Quant Strategy, FactSet

Given cheap valuations, strong relative trends, and a back-drop that may restrict supply for a long time to come, energy may be the exception this cylcle where even in a recession the stocks don't decline very much.

Where to from here?

While the last six months has aged us several years and been endlessly frustrating from day to day, as we step back, we are optimistic for our approach over the coming quarters. Bear markets have a median length of 39 weeks, meaning that we are now likely about 2/3rd of the way through the current one. Non-recessionary bear markets tend to see equities decline ~20%, meaning that we are already there in the event that the collective pessimism of an imminent recession is misplaced. Recessionary bear markets have a median decline of ~33%, suggesting that we have some way to go for equities if that is the outcome. In that case, we do expect that our typical defensive tools, namely owning high-quality stocks and being short low-quality ones, as well as owning defensive U.S. long bonds and having USD exposure, will add meaningful value on a forward-looking basis. Additionally, we don't believe a recession is a foregone conclusion. Employment is very strong, and consumer balance sheets remain in good shape with Covid-era savings sitting in bank accounts. It may be that consumer spending drives a better-than-expected outcome. Given that valuations are much more reasonable, and sentiment is at all-time lows, it wouldn't take much of a positive catalyst to spark a rally that is more durable than those that we have seen so far.

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.

ehp | FUNDS

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	-1.6%	-1.9%	-5.8%	-3.7%	2.4%	3.3%
EHP Foundation International Alternative Fund	-0.3%	-1.3%	-5.3%	-3.9%	-0.2%	1.7%
EHP Global Arbitrage Alternative Fund	-1.4%	-4.3%	-7.7%	-4.9%	3.7%	6.0%
EHP Strategic Income Alternative Fund	-3.4%	-3.4%	-4.2%	-2.0%		-1.2%
Core/Moderate Funds:						
EHP Advantage Alternative Fund	-6.1%	-8.4%	-11.5%	-5.3%	3.5%	3.5%
EHP Advantage International Alternative Fund	-2.4%	-4.1%	-9.2%	-5.1%	0.0%	1.6%
EHP Select Alternative Fund	-10.4%	-14.2%	-17.8%	-18.1%	9.9%	7.6%
EHP Global Multi-Strategy Alternative Fund[1]	-3.9%	-6.0%	-11.0%	-7.1%		1.1%
Specialty Funds:						
EHP Multi-Asset Absolute Return Fund[2]	1.7%	7.7%	14.4%			15.7%[2]
EHP Global ESG Leaders Alternative Fund*	NAV as of June 30th: $10.154					

*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.

[2]EHP Multi-Asset Absolute Return Fund was launched November 1, 2021 as a prospectus exempt offered fund. Returns shown are for Founders Class which is currently available to new investors. "Inception" for this Fund refers to the cumulative return from the inception date (i.e., such rate has not been annualized, while the "Inception" for both the Defensive/Conservative Funds and Core/Moderate Funds do reflect an annualized return).

Defensive / Conservative Funds

EHP Foundation Alternative Fund

The Fund was down -1.9% over the quarter, in what remains our most challenging environment for the strategy historically. The Fund entered the quarter partially risk on, as a market rally into the end of March was strong enough to have our process add some exposure in the U.S. and Canada. Ultimately, markets resumed their downtrends for both equities and bonds, entering a bear market for most. 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 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 -23% from prior highs at its worst point), 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, although were strongest in the U.S. as growth stocks continued to underperform our dividend-paying, value-skewed equities.

Our Credit Momentum strategy had small losses from a short-lived "risk-on" signal in high yield bonds that quickly reversed course only a few days later. As of the end of the quarter, the Fund began adding U.S. long bond exposure, which appears to be responding to the rollover in inflation breakevens. With markets now discounting an interest rate cut in Q1 of 2023, and with the asset class having been "reset", we anticipate that if markets do start to fully discount a recession that the U.S. long bond 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 widened to greater than 20% annualized in June, a level where it stayed for only ten days during the Covid sell-off before tightening sharply, generating attractive returns from that point forward. We took advantage of these overly discounted spreads across the funds and allocated additional capital to what we believe are the deals with the best risk/reward.

From a sector perspective, the Fund has moderate net exposure to inflation-beneficiaries in energy and materials sectors, balanced by more defensive communication services and health care. We continue to avoid more expensive bond proxy utility and REIT sectors. 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.

<u>EHP Foundation International Alternative Fund</u>

The Fund was down -1.3% over the quarter, in what remains a particularly challenging environment for the strategy. The Fund entered the quarter partially risk on, as a market rally into the end of March was strong enough to have our process add some exposure in the U.K. and Japan. Ultimately, markets resumed their downtrends for both equities and bonds, entering a bear market for most. 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 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 MSCI World declining nearly -21% from prior highs at its worst point), 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 exception of Europe equity/long short, where our shorts more than protected against declines in longs.

Our Credit Momentum strategy had small losses from a short-lived "risk-on" signal in high yield bonds that quickly reversed course only a few days later. As of the end of the quarter, the Fund began adding U.S. long bond exposure, which appears to be responding to the rollover in inflation breakevens. With markets now discounting an interest rate cut in Q1 of 2023, and with the asset class having been "reset", we anticipate that if markets do start to fully discount a recession that the U.S. long bond 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 widened to greater than 20% annualized in June, a level where it stayed for only ten days during the Covid sell-off before tightening sharply, generating attractive returns from that point forward. We took advantage of these overly discounted spreads across the funds and allocated additional capital to what we believe are the deals with the best risk/reward.

From a sector perspective, the Fund has moderate net exposure to the dividend-paying stocks in more cyclical industrial, financial, materials and energy sectors, while avoiding 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 -4.3% 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 a very wide 20% annualized, levels not seen since March of 2020, as well as from SPACs and SPAC warrants that were sold relentlessly to fresh all-time lows. The average SPAC seeking a deal now yields an attractive 5.1% (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 early 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 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 89 traditional arbitrage opportunities, and holds 48 positions as of the end of the quarter. There was one deal reprice, one failed strategic review, and no deal breaks in the portfolio during the period. 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 it. 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. On one hand, private equity still has a large war chest of cash it needs to put to work, and multiples in many sectors have come down from prior highs. One the other hand, high yield debt markets, which are often a source of funds for deals, are less supportive and the cost of that debt is higher, making transactions more difficult to finance. 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 -3.4% over the quarter, with the bulk of the drawdown occurring in a difficult June. Losses came primarily from our core long/short credit strategy which has an approximate 0.4 net positive beta to high yield. With credit markets down -9.8% over the quarter, the drawdown, while frustrating, is within expected outcome for this kind of environment and within our risk budget.

To take a step back, while the credit market has historically provided higher returns than treasuries over the long term (by around 2.5% on average per year), it presents two extra types of risks compared with treasuries: 1) spread volatility risk and 2) default risk. Volatility risk is ultimately mean-reverting, and as uncertainties diminish or as bonds approach their maturities, the prices ultimately approach "par" value. We mitigate the volatility risk to some extent with a long/short approach, as well as through our risk gearing. But the main focus of our core process is protection against the permanent losses in the portfolio when the defaults spike. As such, the average probability of default in our long book is currently 0.34% while the average probability of default in our short book is 2.1% - so we expect that our short book would offset possible default related losses in the long book. To be sure, we are not expecting an imminent default cycle spike, as companies have refinanced their debt stacks at low rates in the last 1-2 years, (the "maturity wall" will not start until 2026 and will peak in 2029) and the cash flows and credit metrics are in good shape in general. But in the event this changes, the portfolio will be well positioned to withstand, and potentially profit from, a default cycle.

In the second quarter, the fixed income market continued to be under pressure, however corporate credit sold off more than treasuries in contrast to Q1. The Bloomberg Barclays US Aggregate Bond Index was down -4.7%, while the

Bloomberg Barclays US Corporate High Yield Bond Index was down -9.8% in the quarter. Within high yield, higher risk credits sold off more than higher quality ones with CCC down -13.6%, B credits down -10.6% and BB down -8.6%. Second-quarter issuance slowed to a trickle, with bond sales at a modest $25b, the lowest 2Q volume since at least 2006.

Spreads of investment-grade corporate bonds ended the quarter at 155 basis points over Treasuries, 39 basis points wider than the end of Q1. Similarly, the risk premium on high-yield debt ended the quarter at 569 basis points, 244 basis points wider than at the end of Q1. We note that the high yield spreads are 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 8.9% high yield will provide attractive returns long term.

We continued to run our disciplined portfolio management process in Q2 albeit we reduced portfolio's churn given the wider spreads and implied trading costs. We also reduced net credit exposure to 41% given elevated market uncertainty (vs. a long-term of 50% of NAV) 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.

Our Credit Momentum strategy had small losses during the quarter as a brief risk-on signal at the end of March was quickly exited as credit resumed its downtrend. One of the challenges this year has been the inability to use typically defensive U.S. long bonds in the portfolio to offset residual credit risk. As of the end of the quarter however, long bonds have turned higher and appear to be starting a new uptrend, possibly in response to falling inflation breakevens. With markets now discounting an interest rate cut in Q1 of 2023, and with the asset class having been "reset", we anticipate that if markets do start to fully discount a recession that the U.S. long bond will once again offer a source of tactical protection.

SPACs added value, and we redeemed a number of positions for cash, while redeploying capital into average yields now approaching an attractive 5.5%. Risk Arbitrage opportunities, which are primarily in SPACs with the highest yields-to-maturities, round out the portfolio at 24% of NAV.

We enter Q3 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 Q1 (14.4%).

Core / Moderate Funds

<u>EHP Advantage Alternative Fund</u>

The Fund was down -8.4% over the quarter, in what remains our most challenging environment for the strategy historically. The Fund entered the quarter partially risk on, as a market rally into the end of March was strong enough to have our process add some exposure in the U.S. and Canada. Ultimately markets resumed their downtrends for both equities and bonds, entering a bear market for most. 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 as much as equities YTD. 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, although were strongest in the U.S. as growth stocks continued to underperform more value- oriented energy and materials sectors.

Our Credit Momentum strategy had small losses from a short-lived "risk-on" signal in high yield bonds that quickly reversed course only a few days later. As of the end of the quarter, the Fund began adding U.S. long bond exposure, which appears to be responding to the rollover in inflation breakevens. With markets now discounting an interest rate

cut in Q1 of 2023, and with the asset class having been ”reset”, we anticipate that if markets do start to fully discount a recession that the U.S. long bond 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 widened to greater than 20% annualized in June, a level where it stayed for only ten days during the Covid sell-off before tightening sharply, generating attractive returns from that point forward. We took advantage of these overly discounted spreads across the funds and allocated additional capital to what we believe are the deals with the best risk/reward.

From a sector perspective, the Fund has its highest net exposure to inflation-beneficiaries in the energy sector, balanced by more defensive staples exposure. Materials weight has been falling as some base commodities sell off, while financials and discretionary are rising as cyclicals become too cheap to ignore. Technology exposure is also rising as valuations reset, while we continue to avoid more expensive bond proxy utility and REIT sectors. 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 0.3.

EHP Advantage International Alternative Fund

The Fund was down -4.1% over the quarter, in what remains a particularly challenging environment for the strategy. The Fund entered the quarter partially risk on, as a market rally into the end of March was strong enough to have our process add some exposure in the U.K. and Japan. Ultimately markets resumed their downtrends for both equities and bonds, entering a bear market for most. 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 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 MSCI World declining nearly -21% from prior highs at its worst point), 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 exception of Australia equity/long short, where our shorts more than protected against declines in longs.

Our Credit Momentum strategy had small losses from a short-lived “risk-on” signal in high yield bonds that quickly reversed course only a few days later. As of the end of the quarter, the Fund began adding U.S. long bond exposure, which appears to be responding to the rollover in inflation breakevens. With markets now discounting an interest rate cut in Q1 of 2023, and with the asset class having been ”reset”, we anticipate that if markets do start to fully discount a recession that the U.S. long bond 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 widened to greater than 20% annualized in June, a level where it stayed for only ten days during the Covid sell-off before tightening sharply, generating attractive returns from that point forward. We took advantage of these overly discounted spreads across the funds and allocated additional capital to what we believe are the deals with the best risk/reward.

From a sector perspective, the Fund has its largest net exposures to inflation-beneficiaries in the energy and materials sectors, balanced by more defensive communication services and staples exposure. Technology exposure is rising as valuations reset, while we continue to avoid more expensive bond proxy utility REIT sectors. 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 0.2.

EHP Select Alternative Fund

The Fund was down -14.2% 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-on" position, with Canadian stocks actually hitting fresh highs in March. Ultimately, as global markets resumed their downtrends for both equities and bonds, the TSX was dragged down with it, and prior winners in materials and energy were hit with aggressive selling on recession fears. 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. While frustrating, the decline remains within our tolerance for the strategy, and we do accept that there can be periods where the path of markets can hurt our approach while making overall defense a challenge. Losses in the quarter came mostly from cheaper cyclicals in copper, steel and forestry sectors, which were partially offset by gains in shorts in airlines, lithium and uranium stocks, and technology equities.

We enter Q2 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 neutral on technology as valuations have reset and shorts have become dangerous, and we remain underweight bond-proxy utilities and REITs.

EHP Global Multi-Strategy Alternative Fund

The Fund was down -6.0% 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 Q2 in the mid-range of our risk ranges, with a blend of strategies reflecting some 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 Q3 with each of the funds in a risk-off position, and with credit allocations once again rotating to defensive U.S. long bonds. We anticipate that once the newer EHP Multi-Asset Absolute Return Fund becomes available as a prospectus-offered liquid alternative fund, that it will have an allocation in the fund as an excellent diversifier in times of market stress.

Specialty Funds

EHP Multi-Asset Absolute Return Fund

The Fund was up 7.7% over the quarter, with gains led by cross-asset trend, short-term trend, volatility, commodity carry and crowdedness. Currency value was flat while fixed income carry was a small detractor to performance.

In commodities, performance benefitted from multiple sources of return including trend, crowdedness and carry, supported by continued flows into inflation hedges and geopolitical instability which affected energy, grains, and metals. In equities, short-term trend and volatility were positive performers for the quarter, as we were able to capitalize on several opportunities in the volatile quarter. In currencies, trend was a contributor to performance while value was flat. In fixed income, while bonds reversed course late in the quarter, we continued to benefit from trend overall, while carry was a small detractor to performance.

Heading into Q3 of 2022, we are well positioned to continue to provide an active inflation hedge and diversifying absolute returns to replace bonds or equity. 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 carry, 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 carry, trend and crowdedness currently favour the long end of curves over short, with relative value positioning providing continued active inflation protection. As always, our process will actively adapt positioning to changes in

ehp | FUNDS

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 $10.154. 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 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.

Our Credit Momentum strategy was in cash for the bulk of the quarter, as U.S long bonds remained in a downtrend. As of the end of the quarter, the Fund began adding U.S. long bond exposure, which appears to be responding to the rollover in inflation breakevens. With markets now discounting an interest rate cut in Q1 of 2023, and with the asset class having been "reset", we anticipate that if markets do start to fully discount a recession that the U.S. long bond will once again offer a source of tactical protection.

The Fund enters Q3 in a risk-off position, and with its highest exposures to defensive staples, and reasonably priced, high quality, high ESG scoring companies in financials, communication services and health care sectors. We are avoiding expensive real estate, technology and discretionary 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.

This material has been published by EHP Funds. It is provided as a general source of information, is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable.

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

Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus or offering memorandum, where applicable, before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. EHP Funds Inc. is the investment manager to the EHP Funds offered under prospectus. EdgeHill Partners is the investment manager to the EHP Funds offered under offering memorandum, and is an affiliate of EHP Funds Inc. The Funds are available only in those jurisdictions where it may be lawfully offered for sale. This document is not intended to provide legal, accounting, tax or investment advice.

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