JEMEKK
LONG/SHORT FUND L.P.

Q4 2017 Commentary

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The TSX continued its strong momentum from Q3 marking the fourth quarter as the best performing all year. Specifically, the TSX was up an impressive 4.5% in Q4 capping the year off with a 9% return. We are pleased to report the Long/Short Fund reversed its course from a negative Q3 print with a banner fourth quarter. Specifically, your Fund was up 7.9% for the quarter closing the year up 17%, handily beating its benchmarks. We will discuss the reasons for the outperformance below.

Below is a statistical representation of the Fund to comparative benchmarks in Q4:

	Q4 2017	YTD 2017	SINCE INCEPTION
Jemekk Long/Short Fund L.P.	7.86%	17.05%	215.52%
S&P/TSX Composite	4.45%	9.10%	174.99%
S&P/TS Small Cap Index	4.69%	2.75%	68.10%

Benchmarks are quoted in Total Returns

Despite posting a 9% year, the TSX underperformed most major global indices. Further, the TSX was negative until September when such sectors as Materials and Financials posted a strong Q4. In fact almost all 11 sectors were in positive territory in Q4 except Energy. It's a similar story for year to date performance, the Energy sector was not only a material detractor but also the only one in the TSX. The weakness in Energy was also a common theme for the TSX Small Cap index and although down small in the quarter was the biggest loser for the year dragging down the index by 25%. Large gains from Tech and Industrials were able to offset the Energy losses resulting in the Small Cap index finishing the year up 2.75%. Toronto also welcomed 37 IPO's in 2017, such as, Freshii, Real Matters, Jamieson Wellness, and Kinder Morgan to name a few. The overall market for new issues was mixed at best in terms of performance but in terms of dollars raised was a blockbuster year and as it stands now the momentum could continue in 2018.

In the US, the fourth quarter continued the torrid pace witnessed all year with the S&P 500 posting a 6.6% Q4. However, what do Korea, Japan, Italy, Germany and France all have in common? They all *out*performed US markets! So, why are we mentioning this? Its because the moves in US markets are the most telegraphed and all year we have been reminded how strong US markets have been and the constant record highs they are hitting. But as we just stated, the strength in major indices is not exclusive to the US. We are experiencing a global synchronized recovery that is driving stock markets across the world higher with forward looking economic indicators such as PMI (global PMI for 2017 stood at 54 -> bullish) contributing to earnings upside across global markets. So although it seems the US markets are hitting all time highs in isolation, they are not – global economic growth prospects are improving. And to quell the bears on the quality of market returns in 2017, a greater share of returns came from fundamentals. Said differently, we are now seeing EPS growth push stocks up versus multiple expansion as has been the case in the past couple years.

The Fund entered the quarter 80% net long and remained bullish all quarter peaking at 95%, finishing the year with 87% net exposure. Given our fairly positive view of capital markets, even in the face of above average valuations, we remain confident in our exposure from both a net long and leverage (currently at 1.3x) perspective and would expect to maintain these levels going into 2018. From a Fund performance standpoint, the Q4 outperformance was primarily from a combination of an acquisition of one our names (Napec taken out) and more so from a couple stocks exposed to the burgeoning marijuana industry. From a capital structure viewpoint we chose to play this space in part via convertible debentures as to limit our downside risk. As for performance for the year the pot stocks mentioned contributed along with names highlighted in past commentaries such as Air Canada and Shopify, which was the largest gainer for the Fund in 2017. As for the detractors, the common theme all year was a weak energy tape and names

such as Storm Exploration and Seven Generations hindered the portfolio.

Following our review of the quarter, we would like to introduce you to a new holding for the Fund:

Pollard Banknote Limited (PBL) – With a history dating back to 1907, Pollard entered the lottery industry in 1985 and is now the largest provider of instant win scratch tickets in Canada. We have known of the Pollard story for some time now but the large family ownership (70% held by founders) which results in lack of liquidity kept us on the sidelines. It was the INNOVA Gaming acquisition that made us decide to purchase the stock as we see ongoing M&A coupled with additional financings to increase liquidity. INNOVA was a $40mm acquisition that expanded PBL's geographic footprint and provided the addition of gaming machines and ticket dispensers.

Scratch tickets seem ubiquitous to most but few realize the players behind them. The numbers behind them are astounding. For example, in 2015 PBL printed almost 12 billion instant tickets, 3.5 billion bingo cards and almost 1 billion pull tab tickets. PBL's business model is straightforward, its generates 90% of its revenue from ticket shipments and the balance from charitable gaming products however with the addition of INNOVA to its portfolio the 90% concentration will go to 80%, another reason we applauded the acquisition.

There are a number of reasons why we like the company. Namely, PBL is a large player in an attractive market. Pollard commands the second largest market share out of the three major players and the contracts by nature are sticky and long dated. Furthermore, the industry has very high barriers to entry so the threat of a new competitor is low. We believe Pollard's offering is differentiated from its two primary competitors. Specifically, the company has a unique product portfolio which includes larger potential dollar winnings and further enhanced with its LT-3 terminals from the INNOVA acquisition. These differing features keep engagement and loyalty high amongst its players. Along with growing organically we see more M&A to complement the overall growth profile for Pollard. Not only does further M&A reduce concentration risk, these deals could prove to be synergy rich as INNOVA is expected to be. And to fund potential deals it should be noted that PBL is a FCF machine currently yielding 7% and we see this only improving as the revenue base increases, capacity further utilized, and efficiencies achieved which is a testament to the strong management team. We acknowledge there are several risks to the company but we see PBL as a very well run company embarking on new growth initiatives making it a catalyst rich stock conducting business in a stable industry supported by reasonable valuation.

Overall, we are pleased with the performance of the Fund for the year. No one could've predicted how strong the markets were but also how little volatility was present. In fact, 2017 saw the fewest 1% daily moves in the S&P 500 since 1964. Late January of 2017 the Dow first crossed the psychological 20k barrier and at the time of writing we just crossed 25k. Although one needs to understand these 1k moves are less material on a percentage basis but nonetheless the market loves seeing these limits broken. So, where could the Canadian economy hit black ice? Risks such as wild swings to FX, newly imposed taxes to small business owners, new minimum wage requirements and the disconnect from commodity prices and underlying securities to name a few. As for the US markets, such risks as the instability in the Trump Administration, constant rhetoric of overpriced markets, inflation and growth faltering could derail the markets. However, we remain constructive on equity markets as stated earlier we are in a *global* synchronized recovery as central banks are now on the path of interest rate normalization along with positive earnings growth and a tax reform tailwind. That said, we are expecting a correction this year and we will act swiftly to not only protect capital but also seek opportunities that could emerge. We are keeping a close eye on the relationship between Trump, USD, and Yields. Tweets like this from Trump don't however help: "… Actually, throughout my life, my two greatest assets have been mental stability and being, like, really smart. Crooked Hilary Clinton also played these cards very hard and, as everyone knows, went down in flames. I went from VERY successful businessman, to top T.V. Star….."

Thank you for your continued support and we look forward to reporting to you at the end of the first quarter 2018.

As always, if you have any questions or concerns please feel free to contact us directly. We look forward to reporting to you at the end of Q1 2018.

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