JEMEKK
TOTAL RETURN FUND L.P.

Q4 2017 COMMENTARY

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The TSX closed the year on a high note. Gaining half of its 2017 return in the fourth quarter alone printing an impressive 4.45%. Although back half loaded (note the TSX was negative until September) Toronto was up 9% on the year. A very different picture emerged in the US with the S&P 500 further continuing its torrid pace into Q4 up a whopping 6.64% finishing the year up 21.8%. We say different than TSX because of the lack of volatility – 2017 saw the fewest 1% daily moves in the S&P 500 since 1964 and the VIX remains at depressed levels. The Total Return Fund was up a modest 50 basis points for the quarter closing the year up 10.3%. We will discuss below the reasons for the underperformance for the quarter and the outperformance for the year.

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

	Q4 2017	YTD 2017	SINCE INCEPTION
Total Return Fund	0.52%	10.32%	95.00%
S&P/TSX Composite	4.45%	9.10%	62.13%
S&P 500 (USD Return)	6.64%	21.83%	149.60%

Benchmarks are quoted in Total Returns

Despite having a strong Q3, the Energy sector was the worst performing sector in Q4 and on an annual basis was not only a material detractor to the TSX but was the only down sector. Sector leaders for the TSX with a meaningful weighting include Consumer Discretionary, Industrials, and Tech. The overall breadth of the market is healthy and further illustrating to global investors Canada is not just a resource based country. Turning to the US markets, the S&P 500 along with the other major indices continued its momentum seen all year long. The leaders in the S&P 500 were Technology, Materials, and Financials whereas the laggards were namely Telecom and similar to Canadian markets, Energy.

Sector rotation has been a talked about event all year but in the fourth quarter we definitely saw this as the tax reform chatter heated up market participants, sold technology for industrials as the latter group will be a larger beneficiary from tax reform as this group pays more taxes than tech companies generally speaking. The rotation was quick and violent and the Fund was not immune. Adobe, a holding in the Fund, experienced a 6.5% drawdown in one day for example. You don't usually see a $90 billion dollar market cap company like Adobe down this much unless a company specific event occurs. But this was a correlation to one kind of an event meaning investors were simply hitting the sell button on all tech stocks. The US markets garner the most attention among investors for example all year we have been hearing about the constant record highs the major US indices are hitting. However, it should be noted Japan, Italy, Germany among other global markets all *out*performed the US. News like this sometimes receives less attention but we highlight to show the US is not competing in isolation and we are presently witnessing a global concerted recovery that is driving up stocks.

Switching to the Fund, we entered the quarter 75% net long but throughout the quarter we slowly reduced exposure as we saw the likelihood of the tax reform passing in its original proposal as low. We exited Q4 68% net long and are now comfortable increasing exposures yet again. The Fund doesn't have exposure to the popular marijuana stocks or some of the industrial and financial stocks in the US that performed well in December. That said, we are pleased with the performance of the Fund on an annual basis as we are not ones to chase 'high-flyers'. The Fund took a hit on its energy book along with Shopify, which we will explain later, in the quarter but on an annual basis Shopify was the largest contributor and from a breadth perspective, aside from Energy, the Fund had gains from every sector. Given the conservative nature of the Fund (averaging 65% net long for the year with no leverage) we are pleased with how the Fund performed.

Our Technology book was by far the largest winning sector all year. Our positive stance on Tech coming into the year and exiting remains the same – bullish. The current move in tech stocks is often labeled euphoric and comparisons are drawn to the late 90's; we wholeheartedly disagree. The basket of tech stocks held by the Fund is drastically different than

the glorified stocks during the tech boom. For example, we own a mix of profitable companies who have demonstrated sustainable business models with high barriers to entry. And most importantly is valuation – the forward PE for technology stocks is ~20x now versus ~45x in 1999. Our tech weighting throughout the year hovered around 20% and our views have not changed and we continue to find compelling ideas in the sector with valuation support. We mentioned earlier Shopify was a laggard in the quarter and we would like to address why and more importantly why our positive view on the company is undeterred. In the first week of October a short report came out on SHOP which sent the stock plummeting and since then the stock has almost gained back all of its losses. We don't take short reports on our stocks lightly and dug into the short thesis and walked away dismissing the short attack rendering the arguments baseless - the author has been silent ever since.

In our commentaries we like to introduce a new name or theme but given the above we would like to reiterate our commitment to Shopify. We have seen Shopify grow from a relatively unknown Canadian company to a global e-commerce solution on its way to becoming the de-facto location to set up an online business. The execution of the platform in 2017 was nothing short of extraordinary and as such the stock was up 120% in the year and we don't see the powerful growth and market share increase slowing down anytime soon. Shopify had some key milestones in 2017 but namely surpassing 500k merchants and achieving profitability in Q3 rank the highest. Why are we still so bullish on SHOP despite its massive run? We believe the company is still in early innings of dominating the e-commerce industry and SHOP has now not only become the market leader but only scratched the surface for its total addressable market. Building an end-to-end platform rivaled by no one else allowing for businesses to have an online presence faster and run more efficiently. Most importantly, a marquee management team known for innovation and building an ecosystem that truly is a win/win scenario – i.e. Shopify Capital a financing solution in which SHOP extends working capital only after internal vetting to ensure payback thereby helping small business owners grow their inventory. We recognize SHOP has risks like every other company but when the primary risk people point to is valuation, we believe there is much more to it than simply valuation.

Looking into 2018, we anticipate further improvement in the economic backdrop for global growth and finally some inflation to set in. The improving macro picture and an expectation that monetary policy will remain reactive to market volatility should drive stocks higher. Despite the political rhetoric, there are a lot of positive events occurring, such as nearly all global manufacturing PMI's are expanding and EPS expectations are double digits for the next two years (12.5% for 2018 and 10% for 2019). We see a mix of themes driving stock returns (not just tech) providing more opportunities for active managers to capture alpha. If we solely focus on the fundamentals of the market and ignore the outside noise, stocks should continue its upward trajectory albeit at a slower pace than we saw in 2017. Although we remain constructive on overall market dynamics we do acknowledge there could be some 'too much too soon' returns on certain sectors and prepared to see a correction in 2018. When this occurs, we will act fast and accordingly and from our experience we know several money making ideas will present themselves. We are keeping a close eye on the relationship between Trump, USD, and Yields. Tweets like this from Trump don't however help: "The Stock Market has been creating tremendous benefits for our country in the form of not only Record Setting Stock Prices, but present and future Jobs, Jobs, Jobs. Seven TRILLION dollars of value created since our big election win!"

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.

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