JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q1 2018 Commentary

	Q1 2018	YTD 2018	Since Inception
Jemekk Total Return Fund	1.00%	1.00%	96.95%
S&P TSX Composite	-4.52%	-4.52%	54.80%
S&P 500	-0.76%	-0.76%	147.71%

* Benchmarks quoted in Total Returns

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The market could not have ended the quarter more differently than it began. Specifically, momentum from Q4/17 continued through January with US markets hitting all time highs at an alarming rate. For example, the returns in January alone were almost at the year end targets for some analysts. And then concerns around inflation spiked volatility and caused North American markets to sell off hitting correction territory in February. The first quarter was a difficult one with both the Dow (-1.96%) and S&P/500 (-0.76%) negative, however the Nasdaq (2.6%) managed to stay in the green. The TSX had a terrible quarter being down more than any other developed nation. Taking all this into account we are pleased with how the Jemekk Total Return Fund performed being able to buck the trend and print a positive quarter. We will discuss the reasons for the outperformance below.

The only positive sector in the TSX was Technology (led by Shopify) and ex-Health Care, Energy was the largest detractor continuing its weak performance from last year. Energy stocks have performed poorly, and we don't know when that will end. But we do acknowledge the increasing disconnect between WTI and stock performance and are monitoring this trend closely as we could see a potential upside surprise from this group especially with valuation in its favour. Inflation, which might as well be a four-letter word in this environment, is another indicator we are watching closely. From our analysis we do not see inflation being a material issue for Canadian markets in the short term. Inflation in Canada has been 60 basis points below its US counterpart and although signs point to it grinding higher it's not expected to be significantly above the 2% threshold. Higher energy prices and minimum wage increases will lift inflation in Canada but at a tepid pace. However, a potential NAFTA breakup would be negative causing inflation to increase at a faster pace.

A recurring theme in our commentaries last year was the complacency in the markets and the lack of volatility. That all came to an abrupt end. Let's breakdown what happened in each month. **January:** all three US markets continued their torrid pace from Q4 and made new all time highs notably the Nasdaq being up 7% in January alone. **February:** the VIX index, which had hovered around 10 in all of 2017, spiked nearly 4-fold shattering the tranquility witnessed last year centered around concerns of inflation which caused the major indexes to lose more than 10% in nine trading sessions. The Dow and S&P/500 entered correction territory for the first time in two years and the 10 year yield hit a four year high. **March:** Nasdaq rebounds making new all time highs but this doesn't last as investors now question the valuation and regulatory headwinds of tech stocks and its sustainability to lead the market. The technology sector was overdue for a pullback and we see this as healthy. The group has become an area for people to hide in causing the FANG stocks to be 14% of the S&P/500 alone! Overall the stellar performance of the US indices finally hit a downdraft as investors focused on risks such as inflation, NAFTA and global trade wars. The ongoing debate of Growth vs. Value continues and even more so as the market is searching for new leadership (consensus is Energy and Financials). We wrote in our last commentary the market is due for a correction and that is exactly what happened - albeit at a violent clip. The reversal has made investors recalibrate and understand we are no longer in a low vol environment. There are serious potential risks emerging but beneath the uncertainty over Trump politics on protectionism the economic outlook remains robust and as we are expecting an overall rosy earnings season as companies are set to release Q1 numbers in a few weeks, aided in part by the tax overhaul in the US.

The Fund entered the quarter defensively with a 68% net long exposure and exiting at 66%. We didn't get caught up with the rapid increase in the markets in January and chase returns. We stayed steadfast and disciplined and pleased to report we outperformed all major indices.

Gains from technology (Adobe and Shopify) and a takeout of Primero Mining (Fund was long the convertible debt) helped the Fund whereas detractors came predominantly from the resource book and marijuana names. The Fund performed as its meant to - capturing some upside and limiting its downside in what we characterize as a highly volatile quarter.

Following our review of the quarter, we would like to introduce you to a new holding as of Q4/17 and a contributor to the Fund's performance this quarter:

IAC Interactive Corp. (IAC) – Led by Barry Diller, IAC Interactive is a conglomerate with majority stakes in highly sought after assets and from our perspective trading at a puzzling valuation disconnect. Our thesis is a simple one, we are bullish on IAC's disruptive companies and the play on Millennials (IAC owns 82% of Match Group and 87% of ANGI Homeservices), future monetization events from other assets held such as Vimeo (Video SaaS business) as the management team has a great track record of creating shareholder value and strong focus on capital allocation. IAC is responsible for some notable companies such as Expedia and Ticketmaster.

We acknowledge conglomerates should trade at a discount however the valuation gap for IAC is far too wide in our opinion. For instance, at the time of writing the ownership percentage in Match and ANGI alone is 20% above the market capitalization for IAC before even considering all the other assets and $650mm in cash. To us, this simply doesn't add up. Our own sum of the parts valuation yields a price of around $200 a share, ~30% above where IAC is trading now.

Let's take a closer look at the primary assets of IAC: (1) Match Group is the largest dating site company with notable assets such as match.com and its flagship app Tinder. We believe that Match's profitable financial profile and underpenetrated global opportunity along with its highly scalable applications make Match an attractive company; (2) ANGI Homeservices is the leader in the US home services market. An industry that is large and growing. We believe this is a great solution for Millennials as home ownership is increasing with this cohort and ANGI being a digital marketplace connecting homeowners with home service professionals. The home improvement business is a $400b annual industry and we see a shift in marketing spend more online as younger more tech savvy homeowners seek professional help; (2) Vimeo which unfortunately gets lost in IAC's other video assets is an application with 280mm monthly users that allows video creators to monetize their work. Vimeo gets zero value right now and applying some industry growth rates and multiples its not hard to reach a $1b valuation for this asset.

IAC has a sterling track record of creating shareholder value and we are confident this trend will continue. We have a positive outlook on both Match and ANGI and comfortable owning IAC as a passive investment vehicle in these companies and having a free call option on the remaining assets which could be monetized at a material valuation. Potential catalysts include: a tax-free distribution of the stake in Match, M&A for one of the subsidiaries (i.e. Match buying Bumble) or at the parent level (IAC has $650mm in cash and could also use its balance sheet), or a sale of one its assets bringing in further cash to deploy (i.e. Vimeo). Stay tuned.

Concerns about tariffs, rising rates, inflation and above average valuations have overshadowed good data such as higher corporate earnings and strong global economic growth. The first quarter has taught us several different things, most importantly the fragility of the markets. This year will be much more of a trading environment and stock picking will take center stage as complacency in the markets is no more which results in a tough market for passive investors but bodes well for active managers such as ourselves. We view earnings growth as the single most important factor for equities and view the recent pullback in markets as healthy and see it as a buying opportunity as we head into earnings. That said, the rhetoric around rising rates and inflation are material but we don't believe will kill the bull market.

We also wanted to announce the 10 year anniversary for the Total Return Fund. We are very proud of the performance we have delivered to our unitholders over the past decade and although the timing of the launch of the Fund wasn't the most opportune (months before the throes of the financial meltdown) we can proudly say during its tenure the Fund has only experienced one down year (2008) and we remain as committed as ever to generating alpha for our investors.

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

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