JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q2 2018 Commentary

	Q2 2018	YTD 2018	Since Inception
Jemekk Total Retur Fund	3.85%	4.89%	104.54%
S&P TSX Composite	6.77%	1.95%	65.28%
S&P 500	3.43%	2.65%	156.21%

* Benchmarks quoted in Total Returns

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The second quarter ended in stark contrast to the first. Specifically, reversing its negative course and delivering impressive returns in the face of material macro risks. All major North American indices finished in the green. In the US it was led by the Nasdaq with the Dow having a lid on its return due to its high weighting in trade related companies. In Canada the TSX posted a 6.8% quarter as Energy had a powerful move. We are pleased with how the Total Return performed in the quarter delivering a 3.85% return and although not keeping pace with the TSX but still edging out the S&P 500, on a year to date basis however, the Fund is still outperforming its respective benchmarks.

The strength in the TSX for the quarter was primarily from the Energy sub-index (+16%) with the only detractor being the Utilities sector. From the energy standpoint, tight supply in the quarter drove the price for oil – however we don't see the same moves from Q2 repeating in the back half. In other words, the price for oil in our opinion will cool off. Inflation worries took center stage in Q1 but since the start of the year a number of factors have rekindled investor concerns which could ultimately end the business cycle resulting in a recession. Signs of rising protectionism, PMI's rolling over, and the effects of rising rates have all sparked fears of a significant downturn to global growth. Here in Canada, the Bank of Canada just increased the overnight rate to 1.5% as expected and language from the press release suggests a healthy economy. We agree there are positive signs such as the latest GDP readings and employment numbers but one thing we are monitoring is how indebted the Canadian consumer is and how does this stretched consumer react in an increasing interest rate environment.

Over the past quarter real risks have entered the market and yet all North American indices were positive. We find this somewhat confounding - either the market is shaking off the risks as transitory or we are set for a significant downturn. Let's first take a look at the positives in the market. As of now we have a constructive backdrop - economic data suggests continued strength with GDP expected to grow 2.9% for the year (up from 2.3% in 2017); recent ISM figures read very well; jobs reports still printing big payroll numbers. As for earnings - consensus estimates are for 20+% EPS growth in 2018 and equally important analyst estimates continue to ratchet higher. Note, EPS growth for Q2 is estimated to come in at 20.1% versus 11.6% last year. Looking at investor concerns such as inflation - despite a tight labor market and strong job numbers, wage inflation as of now is not an issue. As for interest rates - the Fed continues its path for gradual rate hikes (four expected in 2018), which has flattened the yield curve, a key indicator for investors. And finally, trade wars - what started off as posturing in Q1 turned into reality in Q2 as we witnessed the first waves of tariffs being implemented on China. This is a concern and if escalated poses a real threat to global synchronized growth and in turn the markets. We are monitoring the tit-for-tat with China carefully and from past trade wars the only thing we know for certain is there is no winner. For example, when Bush raised steel tariffs in 2002 in an effort to save jobs by reducing imports the following occurred: 200k jobs were lost, wages fell, there were lower returns on capital and above all, GDP declined.

The Fund entered the quarter defensively with a 66% net long exposure and as we saw the market was shaking off trade noise talks we increased exposure exiting the quarter 78% net long. Although the Fund didn't keep pace with the TSX due primarily to the sizable move in Energy, we still managed to beat the S&P 500 and beating both indices on a year to date basis. Gains from Technology (Shopify) and Basic Materials (Stelco) led the way . Whereas the detractors came from Index shorts and Communications (IAC Interactive) and Industrials (NFI Group - which is being caught up in the tariff trade and experienced a drawdown which we believe is overdone). We are pleased with how the Fund performed in the quarter. It was another volatile quarter and we stayed on

course and didn't succumb to the market rhetoric saving the Fund from being whipsawed.

Following our review of the quarter, we would like to introduce you to new holdings playing off our bullish theme on Millennials:

Millennial, and Gen Z, spending habits will dictate retail success for the foreseeable future. It is estimated by next year, millennials (25% of US population) will have annual spending power of approximately $3.4 trillion. What we have learned is that this cohort highly values 'experiences' over 'transactions' so these experiences can be shared on social media. It is imperative companies understand Millens and market their products/services correctly. A few examples of categories geared towards Millens include: Experiential Retail; Shared Lifestyle; Health & Wellness. We are actively looking for stocks capturing this secular theme. One category which caught our attention was beauty products. It doesn't take a genius to see how powerful Instagram is and the trend to post pictures for validation - the status update is the new status symbol. Because of this, looking your best all the time has given rise to beauty products and increasing the use of a variety of applications. Welcome to the 'Selfie Generation'.

Millens don't typically associate with brands, they rely more so on influencers. Influencers have a powerful impact on brands. Once a heavily followed influencer does say a demo of a new make-up technique - followers will buy that brand en masse. As part of researching this space we watched several of these videos on Instagram and YouTube and found them surprisingly well shot and produced. These seemingly amateur influencers are nothing short of professionals who know how to market a product. However, we should note influencers are also celebrities who use product placement to market brands effectively. Two stocks we have concluded that are capitalizing on this beauty wave and achieving success engaging Millens are: **Ulta Beauty (ULTA)** and **Estee Lauder Companies (EL).**

Ulta is based in the US with 1200 stores and on track to open 100 on an annual basis suggesting retail is not dead demonstrating ULTA is Amazon-proof. What attracted us to ULTA was how experiential the stores are versus transactional. Meaning, consumers don't just go to pick up products and leave. They go to test out and use products and sample various kinds. Also, there's a fully trained staff there assisting with application, demonstrations and advice from

everything to using Augmented Reality (AR) when deciding what foundation looks best to new ways of getting your hair blown (we had to Google what this meant). Another interesting trend we found is how it's become a group activity and, Millens especially, will go together to 'experience' this and ultimately take selfies and post to Instagram.

Estee Lauder is on the other end of the spectrum than ULTA. EL is a manufacturer and marketer of beauty products where ULTA is a buyer of these brands. What attracted us to EL was how successful this storied company has been. In our view its one of the most compelling growth stories in consumer staples. Additionally, we like it because its a pure play on the beauty space with globally renowned brands and a history of successful acquisitions. China is experiencing a beauty boom and EL has been benefiting from this trend. EL is still only #4 in beauty in China but the firm is gaining share which suggests upside to the story. We are impressed with the company's capital allocation strategy and view the management team as tier one who are focused on cost savings, reinvestment and margin growth. Risks such as retail closures and possible margin compression are noted but we believe this company is successfully navigating through this and for example EL is expanding its offering to ULTA and as mentioned ULTA is growing its store count by 100 a year.

Back to the Fund and markets, there are without a doubt real concerns in the marketplace and once thought of as only brash talkers, the Trump Administration has showed us there is a bite behind the bark. The market is currently telling us the trade wars won't be long lasting but we take a more mindful view. We are positioned defensively and will act swiftly when new information enters the market. One thing we wanted to highlight - we keep hearing how we are in year nine of a bull market and we have gone straight up since the March lows in 2009. This simply isn't true. We experienced over a 10% move this year with major indices in correction territory. Going back a little further we found from mid-2015 to early 2016 there were some serious corrections almost suggesting a bear market. For example, the median SPX stock was down 25% (index down 15%); Russell 2000 down 27%; Dow Transports down 32%; and Crude down 76%. When we look back it doesn't seem material but these are staggering drawdowns and highlighting to illustrate the market has had sizable pullbacks and will continue to do so. Our job is to navigate the markets astutely and capturing upside while limiting downside for our clients.

On an operational note, as per our ongoing efforts to keep all investors informed of changes that impact your Fund(s), we continue to streamline our operations and service providers. Please note that as of the end of Q2 2018, the Fund(s) administrator has changed to SGGG Fund Services Inc. (SGGGFI). The review of our administrators focussed on service quality, cost and reliability. Although all the administrators we met, including the current one(s), scored very well on these metrics, we felt the best fit for our client needs going forward was SGGGFI. You will notice a change in the look and feel of client statements beginning with the next quarterly communication. Any other changes, other than these, will be very minor. If you want to follow up further on this change feel free to reach out to me directly.

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

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