JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q1 2019 Commentary

	Q1 2019	YTD 2019	Since Inception
Jemekk Total Return Fund	6.47%	6.47%	93.97%
S&P TSX Composite	13.29%	13.29%	67.36%
S&P 500	13.65%	13.65%	171.23%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

As discussed previously the most popular narrative for the violent market selloff in Q4/18 was mainly a function of the Fed going too far with rate hike intentions and balance sheet reduction. In other words, the Fed made a monetary policy 'mistake' misreading the economy and the markets. In the fourth quarter the Fed switched its stance and became much more dovish allowing the bull market to continue where it left off in September. As a result, the markets in Q1 are essentially a mirror of Q4. Specifically, the TSX was up an astounding 13.3% and the S&P 500 almost in lockstep printed a 13.7% quarter. Given its hedged, conservative nature, the Fund didn't keep pace with these surging indices but pleased to report a 6.5% quarter. A number we are happy with given the Fund's exposure and risk profile.

Coming into the new year we felt markets were oversold and due for a bounce, but we did not fully anticipate the violent nature of the snapback. We have said before that markets tend to overshoot in both directions and should be viewed and discussed over longer periods that muffle this noise. Clearly the TSX performed extremely well in the quarter with every sector in the green lead by Health Care and Tech. Looking at specific names we wanted to highlight that out of the top contributors in the TSX six of the ten were cannabis related. Something we do not see as being a recurring trend, but rather an interesting talking point. As for the Canadian economy our research suggests a mixed picture. We are confident the BoC will not raise rates this year as we do not believe the economy can withstand it given its fragility and upcoming election. The housing market has cooled recently but something we regard as healthy and overdue. Federal and provincial governments have enacted a host of new rules to curb housing speculation. The policy changes are working - home values decreased in 2018 for the first time in 30 years. Elsewhere oil prices have had a strong move (+30%) in the quarter which bodes well for our economy and we see the rally continuing as names play catchup to the significant commodity move (the Fund has increased its energy weighting in the quarter as see we an attractive risk/reward ratio playing out).

To us, what is most significant is that the Fed has eased the tight financial conditions which were largely responsible for the selloff in December. The Fed has become much more accommodative which results in lower rates for longer-a definite positive for equity markets as witnessed. We do not expect a rate hike for the balance of the year and in fact the next move could be a cut. However, there are still several macro risks to monitor and suggest caution. The US-China trade negotiation has yet to be resolved although we are hopeful the two parties will come to an agreement soon which should remove a layer of uncertainty in the markets. That said, we feel the markets are already pricing in some of these positive developments which presents a risk if there are further delays or worse yet, no deal. Apart from the trade tensions China is also critical to the prospects and magnitude of a global recovery which has a direct impact on Canadian capital markets. China has been the key source of global weakness over the past year, but signs of strength are emerging, and a recovery seems to be unfolding. What also has investors worried is the movement in the yield curve. Growth fears inverted the yield curve once again in the quarter causing more forecasts of an imminent recession. While we acknowledge yield curve inversions are a material event, we feel investors are overreacting to it. Risks of a deepening global downturn and/or a recession could be on the horizon but for us the inversion needs to be prolonged (10 weeks) for any real sign of a recession occurring in the next 12 months. And even then, the market typically experiences a sizable rally in the following 12-18 months. Another harbinger for a potential market correction could be the IPO market. We watch the new issue calendar closely and believe 2019 will be a historic year for IPOs. The issue being that in years with a large IPO slate can sometimes signal a market top - both 1999 and 2007 are examples of that and were swiftly met with market corrections.

What's also concerning is the potential for a Unicorn runway (unicorn being a private with a valuation of at least $1b) as most of these companies do not have any earnings further testing the risk appetite of the market. The poster child of the unicorn pack is Uber which is estimated to raise $10b for a $100b valuation. So far, the response to IPOs has been mixed - Levi's, the iconic jeans manufacturer, has fared well but Lyft, the other ride sharing company, hasn't. Others we are watching are AirBnb (home rental site), Postmates (delivery service), Slack Technologies (workplace messaging software) and Pinterest (social sharing internet site). As of writing, we have not made any investments in the aforementioned but as they go public will be adding to our watch list.

The Fund entered Q1 on the bearish side of neutral (40% net long) as we decreased our exposures materially in Q4/18. We became more constructive in Q1 on the market as the Fed intentions became clearer. We view their accommodative tone as a floor in the market muting the interest rate risk. The Fund is now 75% net long, which is historically high for the Fund, but we remain nimble and quick to act to changing conditions. As mentioned above we were pleased with the 6.5% performance for the quarter given the Fund's risk profile and hedged bias. Gains came from several different sectors showing the breadth of the Fund - Brookfield Business Units (consumer non-cyclical), Shopify (technology) and Waste Connections (industrial) to name a few. While detractors were largely from our hedge book. We are nearing the high end of our net long range and acknowledge the markets have had a powerful move year to date and will be opportunistic and patient with managing the Fund and would expect exposures to drop over the second quarter.

This is the section where we usually highlight a new idea but rather, we wanted to reiterate our positive thesis on a stock we have owned for years, **Waste Connections Inc.** (WCN). As a refresher, WCN is a North American integrated municipal waste company with services such as waste collection, transfer, disposal, and recycling in secondary markets. WCN is a core holding in the Fund and despite its outperformance we remain committed. We think this how Jemekk sets itself apart from other managers. Meaning, when we identify potential multi-compounding stories, we stay long our core position only trading around the edges. WCN checks off a lot of boxes for us - earnings visibility, tier one management, and favorable industry trends. We have written before we believe we are in a late cycle environment and WCN fits in nicely with this backdrop.

In the quarter we met with management at a conference in Orlando and we came away bullish on the stock. WCN is positioned well as pricing continues to trend positively and recycling headwinds are largely passed. Potential risks to WCN are wage inflation and capacity constraints, but net/net we continue to stay positive on the waste business and prefer to play it by owning WCN as it has industry leading metrics (i.e. FCF conversion) executed by the best management team in the business.

North American markets are off to the best quarterly gain in a decade with Q1 being a sharp correction from the Q4 selloff. As we write this, we are only a couple hundred basis points away from all-time highs as we head into earnings season. The economic backdrop reads not too hot not too cold - 'Goldilocks' if you will. We are mindful of the material macro risks that are present but as we stated above, we see a resolution in the US-China trade war soon. Couple that with Fed rhetoric signaling no rate hikes in 2019 results in a somewhat favorably macro environment. The bull market officially turned 10 years old in the quarter (low March 2009) which to us is merely a psychological date but reinforces, as we look to the next decade, active management will be paramount to outperformance.

Thank you for your continued support and we look forward to reporting to you at the end of the first quarter 2019.

Gerard Ferguson: 1.416.777.4491

Rick Ummat: 1.416.777.4496

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