JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q3 2019 Commentary

	Q3 2019	YTD 2019	Since Inception
Jemekk Long/Short Fund	-4.00%	1.91%	210.02%
S&P TSX Composite	2.58%	19.11%	198.42%
S&P/TSX Small Cap Index	-1.22%	9.07%	50.04%

* Benchmarks quoted in Total Returns

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Global markets have been shaped by ongoing tariffs, tit-for-tat trade tension and of course twitter tantrums; not the easiest backdrop to manage capital. Some monumental events occurred in the quarter such as the first rate cut in 11 years, an inverted yield curve, which suggests a looming recession, and a weakening PMI print. In the face of this the TSX continued its torrid pace up almost 2.5% in the quarter whereas the TSX Small Cap was down 122 basis points as investors sold out of more speculative stocks. The Long/Short Fund underperformed its relative benchmarks being down 4% for the quarter. Clearly our cautious approach to the market thus far in 2019, and our positioning has been wrong for the market we are experiencing. Although much of what we were concerned about has played out this year, the market has moved higher in the face of these greater risks, and has left the Fund with positive, yet disappointing results. We will discuss Fund specifics and our outlook for the balance of the year below.

There was no slowdown in major North American markets in the summer months. Q3 picked up where the first half left off and continued to march higher. Importantly however, leadership changed. For the TSX gains came primarily from gold stocks and the mortgage financing group (Equitable Group, Home Capital Group, and Genworth Canada) and laggards were a mix of base metal names and cannabis related stocks. We say leadership changed because Technology and Consumer Cyclicals underperformed. The TSX Small Cap witnessed the same rotation. With respect to recessions, as goes the US so goes Canada. Specifically, since 1953 Canada hasn't entered a recession without the US as well.

Unable to call a recession with certainty but some signals are flashing yellow but not quite red - we are monitoring the economic indicators closely. But one thing seems clear, global growth has slowed so we might avoid an outright recession but there will still be a slowdown. For the TSX, sluggish growth is better than none at all and could be setting up nicely for when recession talks subside. However, slower growth will be an earnings headwind for Canadian Industrials, Materials, and Energy stocks. Despite global deterioration in market sentiment, in September Canada posted a quarterly growth rate nearing 4%, topping all other G7 nations. As for the valuation of the TSX, given the move year to date overall Canadian stocks are still cheap. The TSX is still trading below the five-year average of its forward PE ratio.

Q3 was marked by many notable events. First, the rotation from more growth-oriented names into value which began in July. As investors feared the end of the cycle was approaching faster than expected long defensive/short growth began to play out earnestly. As recession talks increase there is a direct correlation of secular growth stocks underperforming defensive stocks - this is precisely what occurred in Q3. We have seen this movie before in past growth scares in late 2015/early 2016 and Q4 last year where the defensive cohort outperformed growth materially. The rotation was a cascading effect throughout the quarter, but the rubber really hit the road in mid-August when the yield curve inverted providing more concrete evidence of a potential recession leading to the worst drop for the Dow all year.

No doubt the trade wars have been a constant overhang on the markets, but it seems now we have data showing the impact to global growth. Weak data out of Germany and China fueled fears that the largest economies around the world are now struggling, a departure from just two years ago where we witnessed synchronized global growth. The reason for the weakening is directly related to the trade wars between the US and China. In China, industrial production was less than expected and the Germany economy, the largest in Europe, contracted by 0.1% due to further declines in exports.

The Fund started Q3 78% net long and throughout the quarter the one constant was volatility. The Fund ended the quarter little changed at 77% net long and we will look to change exposures as news unfolds on the trade wars. In terms of market performance, the Fund underperformed relative benchmarks due to overall equity exposure. Simply put, we were not comfortable adding to the Fund (and maintain zero leverage currently) given the heightened level of uncertainty with the trade war resolution and more so data being released quantifying the effects of tariffs. However, given the nimble posturing of the Fund we are able to move quickly when we are more bullish on the market. Following, we would like to introduce you to a new name in the Fund as of this year that has already contributed meaningfully to performance.

LivePerson (LPSN) – establishing itself as a leader in Conversational Commerce, which can be defined as e-commerce done with the use of speech recognition and artificial intelligence, LivePerson aims to transform the business to consumer (B2C) communications industry with its unique messaging platform. Let's address what the problem is with contact centers (i.e. 1-800 numbers) and how LiveEngage (LPSN's offering) looks to solve this.

Call centers are poised for disruption. Let's first focus on the call center then how the customer interacts with a representative. Incoming inquiries are growing exponentially, and call centers are being flooded with calls, but research shows a majority of these incoming requests are simple to execute (i.e. change of address) which may not require a human to be involved. Enter LiveEngage, this is an AI platform that performs several simple tasks and can even determine if the request is complex in nature requiring the call to be escalated to a human. As the purchaser of this technology the value proposition is clear – using LiveEngage will lower overhead and result in higher customer satisfaction. Switching to the user we can see how even calling a 1-800 will become obsolete as the younger demographic favor using messaging applications over a phone and more importantly messaging on their own time a function LiveEngage supports where an open query can be started and revisited when convenient for the customer (this applies more to when shopping online). The offering from LPSN is only getting smarter and able to cross-sell and apply predictive analytics. We see this construct as a win-win for user and host.

The opportunity for LivePerson is material. The Company estimates its total addressable market at $60b and operating metrics (deals signed, ARPU, customer retention, etc.) all point to growth. LPSN recognizes it's at an inflection point to scale up and to capitalize on this lowered its profitability estimates on its Q2/19 call to allocate capital to doubling its sales force. The stock rallied. We applaud this decision because so much low hanging fruit is available and giving up margin for growth is how companies build sustainable moats.

Be it a good thing or bad thing, the reality is the President closely monitors the stock market and uses the performance of the markets as a barometer of his success. We mention this because next time we communicate with you will be early January discussing Q4 performance but will also be an election year.

There is no doubt the trade wars have taken center stage and everything else is a second act. However, at the time of writing positive events are occurring with respect to trade negotiations. Trump knows he needs a strong stock market as a platform for seeking 2020 re-election, however, he also needs a 'win' on the trade talks...or at least a win in his mind. One bullish indicator we can point to is the continued strength of the consumer. We would say this carries more weight than a negative PMI print. The importance of the Consumer Confidence indicator cannot be overstated. A strong consumer has underpinned the bull market and a lack of confidence has accompanied every recession over the past 40 years. Trying to predict anything under the Trump Administration is an exercise in futility - we should also mention during the quarter the Democrats launched a formal impeachment inquiry against the President. With that, the only thing we can say for certain is volatility is here to stay and caution must be exercised in the portfolio.

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

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