JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q4 2019 Commentary

	Q4 2019	YTD 2019	Since Inception
Jemekk Long/Short Fund	5.91%	7.94%	228.34%
S&P TSX Composite	3.17%	22.88%	207.87%
S&P/TSX Small Cap Index	6.20%	15.84%	59.35%

* Benchmarks quoted in Total Returns

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Capital market performance in Q4/19 was the opposite of what we saw the year before. Recall, in Q4/18 the markets weakened throughout the quarter hitting a low on December 24th – creating fears of another 2008 approaching. Fast forward one year and the markets rallied materially into year end, sparking another FOMO environment. The combination of an improving economic outlook, progress between US and China trade talks and an accommodative Fed injected confidence back into the market resulting in stocks around the world closing out one of its best years over the past decade. At home for the quarter the TSX and TSX Small Cap index were up 3.2% and 6.2% respectively translating into returns for the year of 22.9% and 15.8% respectively. Specific to our investors, The Long/Short Fund outperformed the TSX in the quarter (+5.9% vs +3.17%) but lagged its benchmarks on the year as our overly cautious approach resulted in a return of +7.94% for 2019, significantly behind the unbridled enthusiasm of most indexes. This underperformance to the index was due to our hedged approach and our caution given the perceived material macros risks present in the market throughout the year. On one hand, we were pleased that the Fund posted a positive number, but clearly, we would have hoped to have done better. Although our exposures did grow as the year wound on, we remained underleveraged and focused more on risk mitigation than was called for particularly in the early part of the year. Although risks remain high (and valuations are towards the middle to high end) we do see more upside and hence we are positioned fairly aggressively, but with a close eye on world events and company fundamentals.

We will discuss Fund specifics and our outlook for the year below.

Following a particularly strong Q1 (and less so Q2 and Q3), North American markets rallied strongly again in Q4. Technology was again the best performing quarter, followed by Materials (particularly Precious Metals) and surprisingly Energy (+11%, and discussed further below). As for laggards, the Health Care sector was the worst performing in the quarter and (led by Cannabis names). From an individual names perspective the biggest gainer for the quarter in the TSX was The Stars Group (a name the Fund is long) whereas the biggest losers were from cannabis names such as Hexo and Aurora (a name we had had a small short position in). For the year, Technology was the clear outperformer (+66%) led by Real Matters and Shopify (Fund is long both names) and as mentioned above, Health Care was the only losing sector driven by the selloff in cannabis stocks. In fact, four of the top ten worst performers for the TSX were cannabis stocks, something that is unique to Canada who has taken a leading position in the industry. A similar dynamic played out in the Small Cap index, as the Health Care sector was the worst performer however the best was Financials, a sector that is chronically underrepresented in the Fund. Where the Fund was clearly offside was in the interest sensitive areas of Utilities and REITs, both material movers, and areas where we typically don't concentrate. Missing out on these areas was an opportunity cost for the Funds relative to their benchmarks as we were surprised by the strong moves and didn't chase them as the year wore on.

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Economically the picture was mixed in Canada. The labor market in Canada in November printed the worst employment dip since the recession which added to our cautious beliefs/concerns. Offsetting this however, upward revisions to prior GDP quarters along with improving measures for wage growth suggest the economy is in a better position than at the start of Q4 increasing enthusiasm somewhat. We expect the Bank of Canada to cut rates in 2020 following a trend we see the US setting. Against this backdrop Canadian equities remain cheaper than US stocks as Canada once again lagged, although not materially in 2019. The historical discount of Canadian stocks on a forward PE is at a two-decade low and suggests there is more upside in Canadian markets than stateside, and with a stronger earnings growth (albeit modest as it is).

In the US stocks printed their best annual performance since 2013 against a difficult combination of muted earnings growth and plentiful macro risks. The S&P 500 was over 9% in Q4 alone (and to remind everyone Q1 was extremely strong as markets bounced back from significantly oversold conditions at the end of 2018). All 11 S&P 500 sectors were positive led by Technology (+ 50%) with the laggard being Energy up *only* 12%. In early September the yield curve 'un-inverted' and two weeks later the Fed cut rates by another quarter of one percent what would be one of two cuts in Q4, further emphasizing the point of "don't fight the Fed". At this point the markets are in an upward trajectory with no signs of slowing down. The mood in the market has gone from gloomy to exuberant and recession talks have all but vanished. And most notably in the quarter President Trump announced that a Phase 1 deal had been reached between US and China signaling a partial de-escalation of the trade war leading investors back into a risk-on environment. The initial phase would cover intellectual property, financial services, currency, and agricultural purchases but other important areas would be addressed in later phases. Meaning, Phase 1 is only the beginning and trade risk is still very real and should not be ignored. However, the announcement that the Phase 1 signing would occur on January 15th was enough to keep the risk on sentiment in place and buoyed all major North American markets. We should mention the President was impeached but as it stands now removal from office is not being priced into the markets – signaling that investors don't care. At the close of the year optimism remains high.

Although the follow-on rounds of the trade talks with China, the Presidential election and the middle east remain significant concerns, the market has continued to move higher in 2020, as risk aversion remains low in investor's minds, although are at the forefront of ours.

The Fund started Q4 77% net long and underleveraged. During the quarter through a combination of adding to stocks, covering shorts and organic growth the Fund ended the quarter 88% net long, but continued to employ no leverage – in a sense keeping powder dry. In terms of Fund performance for the quarter top gainers were The Stars Group and Everi Holdings (a name we profiled in our Q2 commentary) whereas detractors were a US cannabis stock and a new name Canadian Western Bank, which we believe had an overreaction to an earnings announcement and has begun to recover in 2020. On an annual basis top performers were Shopify and our weighting in Precious Metals, which is a macro theme based on negative rates and was aided by the events in the Middle East later in the year. Our only losing sector in 2019 was our energy book which we began to increase in the second half of the year, perhaps too early, as the disconnect between commodity prices and underlying valuations that has occurred over the past decade increased even further. Statistically Energy has been the worst performing sector in the markets for the past decade - down 3% annualized since 2009 and underperforming the TSX by 7% on an annualized basis. The question is does this trend of underperformance continue? On a longer-term basis quite possibly but short term we have seen energy names begin to bottom against the backdrop of stronger commodity prices (+30% in 2019) and increased global supply risks (Iran).

As usual in our commentaries, we would like to introduce you to a new name in the Fund as of this year that has already contributed meaningfully to performance.

The Trade Desk (TTD) - a provider of self-service software to advertising buyers, Trade Desk empowers users to manage digital advertising campaigns across several channels including connected TV's, mobile, video, and social to name a few. The technology allows clients to 'bid' on advertising slots where the highest bidder wins - much like trafficking in the stock market.

We have been watching the stock for some time now and stepped in when it sold off on a downgrade of Roku (a relatively weak comparable in our opinion) and since then the stock has rallied which we believe will continue.

The Trade Desk is a unique tech stock in our opinion as it has something for everyone. For growth investors, 35% top line; for margin investors, 30% EBITDA margins. This is a rare dynamic in the technology complex suggesting the company not only has lots of growth ahead but also has pricing power. Why do we continue to hold the stock: (1) the value of targeted ad reach is increasing. Ads are becoming more tailored to the end consumer and more analytics based on demographics for example must be incorporated; (2) TTD is a pure play on digital ad spending, something we are very bullish on (2020 elections alone will be a boon for the company); (3) Long term opportunity remains intact. TTD currently has a 10% share of US ad spending for the open Internet in 2020 leaving ample share out there to capitalize on. This becomes more appealing when we look at ad spend on a global basis. TTD has made investments globally elongating the company's growth trajectory. TTD has been growing its revenue at 40-50% each year for the past three years globally. No question TTD has global reach implying its total addressable market is multiples of the US.

Despite stellar execution, scale advantages, and high barriers to entry, Trade Desk still has several risks we watch for. It is entirely dependent on ad spend which could be cut in a weakening economy. TTD faces potential scrutiny over privacy laws which have been a hot button topic as of late. TTD also has competition from mega companies with unlimited resources such as Google and Facebook. Ads are becoming much more bespoke especially on mobile devices. TTD is a solution to help target the right customer. We like this secular story but will monitor industry dynamics if news comes out that changes the fundamentals for the company.

As mentioned in many ways 2019 was the reciprocal of 2018. In '18, corporate earnings grew an impressive 21% largely fueled by tax cuts and to a lesser extent a strong global macro environment and yet stocks were negative for the year and fear was at an apex as the year ended. 2019, in contrast, earnings growth was essentially flat, and the S&P 500 was up over 30% due to multiple expansion alone. In fact, Apple's jaw dropping 85% move was entirely due to multiple expansion. Which brings us to today, where we feel the markets will continue to increase but this year more-so through an increase in corporate earnings and less due to multiple expansion than what we witnessed last year. Although optimism is high, material risks especially surrounding trade are still outstanding and as we have seen with this Administration countless times before, they are anything but rational. We will be monitoring the economy, earnings, and the election closely. Even with a more accommodative Fed this market is not free of material adverse risks, particularly from the macro front as the Middle East, China and emerging markets continue to remain hot spots.

We wish all our clients a very happy new year and thank you for your continued support. We look forward to reporting to you at the end of the first quarter 2020.

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