JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q4 2019 Commentary

	Q4 2019	YTD 2019	Since Inception
Jemekk Total Return Fund	5.55%	7.88%	96.53%
S&P TSX Composite	3.17%	22.88%	81.51%
S&P 500	9.07%	31.49%	213.81%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

North American markets ended 2019 posting their best performance in years. Specifically, for the S&P 500 since 2013 and for the TSX since 2009. Concerns over material risks we have highlighted in past commentaries such as trade wars, potential for a looming recession, and yield curve inversion, for the most part evaporated in Q4. As for performance in the quarter, US indices did very well. The Dow Jones, Nasdaq, and S&P 500 were all up 6.7%, 12.5%, 9.1% respectively. Here in Canada, the TSX was up 3.2%. For the quarter the Total Return Fund (+5.6%) outperformed the TSX, but was unable to keep pace with the US indices. For the year, the Fund was up 7.9%, but due to its hedged position on a relative basis, it did not fare well versus its benchmarks. We are satisfied with the absolute return of the Fund given the significant risks that shadowed the markets throughout the year. 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. While risks remain high (and valuations are towards the middle to high end) we do see more upside, and hence we are positioned fairly aggressively, albeit with a close eye on world events and company fundamentals. We will discuss Fund specifics and our outlook for the year below.

Without argument global equities have enjoyed a strong year. Granted, one needs to recall the violent selloff in Q4/18 hence coming off a low base for the year but nonetheless an impressive 2019, led by Q1 and following on throughout the year. An easing of both trade tensions and global central policy has notably improved market sentiment versus a year ago.

Looking at the G7 + Korea and Australia, Canada's performance was in the middle of the pack in local currency terms but was third best when adjusting for the strength in the Canadian dollar. In terms of sector performance for the quarter the TSX continued to be led by Technology but a surprise in the quarter was the strength in the Energy sector which rallied due to a combination of tax loss events and increasing political risk. Energy has been the worst performing sector in the decade and although the commodity posted a strong year (+30%) dislocations between quality stocks and the underlying commodity continued. Thus, we added to our weighting in the second half of the year, which hurt performance, as we see this valuation gap closing. For the year, the Technology sector was the clear leader (+66%), while the cannabis names took down the Health Care complex being not only the worst sector but also the only negative one for the year (-16%). Looking at the economy, the Canadian dollar has been strengthening against the USD, something we monitor closely, and we expect the Bank of Canada to cut rates once in 2020 to keep pace with US policy, which should provide a positive backdrop.

For almost the past two years international trade has dominated global economic headlines and has been a constant risk in the markets. However, in the fourth quarter we had some reprieve as President Trump announced Phase 1 of the deal is for the most part complete and a signing ceremony will be conducted January 15th. This news coupled with two additional Fed rate cuts along with the yield curve normalizing removed key concerns in the market resulting in a powerful Q4 rally.

President Trump didn't escape controversy entirely in Q4 being the third president in history to be impeached. As of now, it doesn't look like this is going anywhere as the Senate is due to vote on it this year, but certainly adds a blemish to his record and could lead to a drop off in his supporter base in an election year. Trump's superpower is to polarize absolutely everything. It's been part of his platform since day one and doesn't seem like it will change heading into the elections. Bottom line, the economy appears to be in a much better place than experts feared, led by the consumer, which bodes well for the Trump Administration as they gear up for the 2020 elections. Further on the elections and the impact on the markets, some of the Democrats are not stock market friendly and this is something we are monitoring closely with respect to polling and upcoming primaries. No question valuation is higher now versus the start of 2019 (18x vs.14x) however by removing some key risks such as tariffs and a near term recession will instill more confidence in CEO's and consumers resulting in a better earnings backdrop than we saw in 2019. Another sign of a healthy functioning market is the how IPOs performed this year. At the start of the year we outlined the IPO calendar and how it was an exciting year for new issues (Uber, Lyft, Pinterest to name a few). However, 2019 was a tepid year for IPO performance as these new namesake companies were not met with enthusiasm largely due to valuation. What are we trying to say? In an overly irrational markets, IPOs (especially technology stocks) are bought indiscriminately without any caution on valuation (late '90s) and cause damage to capital markets and confidence. This was not the case this year, as the majority of these 'hot IPOs' didn't see the initial opening pop and most of them broke issue altogether. The 2020 IPO calendar is not as exciting as 2019, and more private companies are cognizant of how their counterparts performed in the year. AirBnB is a big one and will be watched closely. This plays into a theme of private equities versus public markets but is too onerous a subject to discuss here.

Heading into Q4 the Fund was 76% net long (no leverage) and during the quarter through buying securities, covering shorts and organic performance the Fund exited 84% net long, which is high for us historically. This number probably exaggerates our net exposure as we established a fairly large (15%) position in a portfolio of Canadian preferred shares as an alternative to holding cash as we sought to replace an asset that was yielding fairly low (cash) with a basket of names that yield significantly higher (8%+), although with the commensurate interest rate risks that go along with pref's. As mentioned above, we recognized the removal of key risks in the marketplace and were comfortable adding to our favorite names along with removing some hedges to gain more market exposure. In terms of performance in the quarter, Shopify, Boyd Group Services, and Microsoft (long held names in the portfolio) were meaningful contributors, in addition to our Precious Metals book. For the year, a similar pattern emerges however include Air Canada to the winner list. From the negative side, Energy remains a puzzling sector as mentioned above, and accounted for our biggest losses in the quarter. Even with the current tension between the US and Iran the commodity is not behaving as it should, and we wonder if that is a short-term mispricing opportunity or a longer-term secular change. Following we would like to highlight a name we think will do well in 2020.

Salesforce.com (CRM) - A stock we have held for years, Salesforce is a holding we believe will outperform in 2020. CRM provides a cloud-based customer support platform to help organizations manage its businesses optimally. CRM is the #1 globally adopted customer relationship management software with over 150,000 businesses using the software. From an industry perspective we believe cloud adoption is still in early stages and still see waves of digital transformation manifesting. Salesforce is the clear leader in the group so in the interest of brevity we will focus on why we think CRM will have a solid 2020 rather than delve deep into the core thesis for owning the stock.

To us, 2019 was a year of M&A digestion for Salesforce. After closing on several sizable deals (Mulesoft $6B, Tableau Software $14B the largest), the stock took a pause in 2019 versus the market and sector. Specifically, CRM was up 18% last year while the Technology group as a whole was up 50%. During its annual conference, Dreamforce, CRM stated they are stepping back from M&A while they integrate past deals. This was met with enthusiasm as CRM's recent deals rounded out its overall offering and increased its total addressable market. As we look to 2020, we see upside potential to the 20%+ revenue growth we forecast over the next four years. We feel the street is underestimating the FCF potential of the company. We also see material upside in the cross-selling opportunities from the new acquisitions. CRM is also much more recession resistant versus other cloud-based software. If cuts need to be made, ripping out your CRM platform would be the last thing to go. And finally, on valuation, Salesforce screens quite well on a relative basis and passes the 'rule of 40' (rev growth + margins > 40%) test. 2019 was a year of multiple expansion and anemic earnings growth. If investors choose to move from high valuation, no FCF technology names into more quality ones, Salesforce is the clear winner.

As it stands now, market sentiment is much more positive than it was 12 months ago. Despite repeated concerns about economic activity and the length of the now 11-year bull run, global growth remains positive. This provides a healthy backdrop for corporate earnings, which we will need as multiple expansion will play less of a role in 2020. Against this backdrop we have increased exposures (and hence risk) by increasing our net long positioning, although as mentioned much of that was the establishment of a preferred basket in the second half of 2019. However, we are mindful that we are in no way out of the woods with respect to the trade wars. With Phase 1 priced in (positively) Phase 2 is on the heels and brings the potential for a tremendous amount of volatility.

Several other potential landmines we are watching are the simmering tensions in the Middle East, the rhetoric surrounding the Presidential elections and perhaps most importantly the language and actions of the Fed. We believe the Fed has learned from past mistakes and will be more measured with their actions and will take a pause all year on the direction of rates, providing solid footings/floor for the equity markets. We are content with our positioning and are comforted by the liquidity of the portfolio which allows us to react and position as 2020, and the risks it brings as mentioned above, winds on.

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.

Gerard Ferguson: 1.416.777.4491
Rick Ummat: 1.416.777.4496
Michael Lam 1.416.597.4502

Forward-looking Statements: The information contained in this transcript may include estimates, projections and other "forward looking statements", which are generally expressed in the future tense, or using words such as "expect", "anticipate", "believe" or "may", whether or not they are expressly identified as forward looking statements. Any such statements pertaining to our investment products were based on assumptions that we believed to be reasonable at the time, but which may prove to be incorrect. As a result, any forward looking statements may prove to be incorrect and actual performance may differ materially from that predicted in any forward-looking statements. The opinions expressed herein reflect those of the individual portfolio manager. These opinions are subject to change at any time based on market or other conditions, and Jemekk Capital Management disclaims any responsibility to update such views. These opinions may differ from those of other portfolio managers or of Jemekk Capital Management as a whole. The information and material presented herein are for information purposes only and not to be used or construed as a public offering, an offer to sell or the solicitation of an offer to buy any securities, which may only be made pursuant to a prospectus. Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Comparisons to indices and other benchmarks are inherently unreliable indicators of future performance.