# JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q1 2020 Commentary

| | Q1 2020 | YTD 2020 | Since Inception |
|---|---|---|---|
| Jemekk Total Return Fund | -13.84% | -13.84% | 69.32% |
| S&P TSX Composite | -20.90% | -20.90% | 43.58% |
| S&P 500 | -19.60% | -19.60% | 152.31% |

* Benchmarks quoted in Total Returns

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The longest bull market on record is officially over. In fact, in the past month we have experienced a full bear market (-20%) and a full bull market (+20%). This extreme volatility follows a period of extreme calm that saw some of lowest volatility readings on record. We have highlighted several times in our commentaries how uncomfortable the complacency in the market was and it took a global pandemic to put an end to the 11-year bull market. There are several historical events that occurred in the first quarter some of which we mention below, but one we would like to emphasize is the market experienced the fastest 30% decline in history. For the quarter the TSX was down 21% and the S&P 500 down 19.6%. The Total Return Fund was down 13.8% for the quarter. We will discuss Fund specifics and our thoughts on COVID-19 below.

When the quarter began, we thought the drone strike at Baghdad International Airport that killed the top Iranian General Suleimani and the potential for retaliation would be the key concern for the markets; coronavirus put every other issue on hold. The spread of COVID-19 resulted in unprecedented moves with respect to global markets, national shutdowns and government response to name a few. The shock from the coronavirus simultaneously impairs the supply and demand sides of the economy, as opposed to just one side we have seen before. This event is especially dangerous as it essentially halts all global commerce. Each crisis varies, but inside of three months this one morphed from a medical crisis to a credit crisis which became a liquidity crisis.

Here are some major moves and painful facts that occurred in Q1:

● The Federal Reserve and Bank of Canada cut by 50bps and the 10 year drops below 1%.

● Breakdown of an OPEC+ deal to deepen production cuts in response to demand fallout from COVID-19 specifically Russia not willing to cut more. This resulted in a 30% move down in WTI. TSX was down over 10% that day, the most since the October 1987 crash.

● 22 days after hitting an all-time high the market was in a bear market, the fastest plunge on record going back to 1945.

● Sunday March 15th the Fed made a surprise announcement to cut rates to 0% and implement $700b in Quantitative Easing.

● End of March we saw 3.3mm Jobless Claims in the US - this was deemed a 30-sigma event (Black Swan).

● Never in modern history has such a sharp economic decline been met with unprecedented, rapid deployment of fiscal and monetary support. The Federal government announced they will provide unlimited fiscal support to prevent a depression. $2t announced in stimulus and that number can grow.

The Fund started Q1 84% net long and as COVID-19 began materially hitting the markets we were quick to reduce exposure via index options and shorts along with selling non-core positions but we underestimated the magnitude of the market drawdown and in retrospect didn't move fast enough in that first week. The Fund's current exposure is 25% net long with the notion that our defensive positioning can go from bullish to bearish quickly given news flow. It was our Energy book that caused the most damage to the Fund along with Air Canada given its direct exposure to COVID-19. At the onset of the virus we immediately assessed the balance sheet of our names and stress tested for large liquidity drawdowns. Any company that could not stay afloat with material revenue declines was sold. However, we were not forecasting country wide shutdowns and at this point correlations went to one and the selloff was much worse than expected. One thing to keep in mind is although the selloff was violent and fast the overall intrinsic value of many of our core names were not materially changed. These names will come out with bruises in the near term but not scars. In other words, no company is immune to coronavirus, but some will be much more affected than others. There will be medium to long term effects on some areas of the leisure sector in our opinion. The volatility in the quarter far surpassed what we saw in 2008. The CBOE Volatility Index averaged 57.1 in March, three times the mean in the prior decade. Markets will move and show signs of recovery once the damage from the coronavirus starts to fade with the support of monetary and fiscal policy. As of now, volatility remains high (showing signs of normalizing however) and we believe it's too early to quantify the economic impact of the virus leaving the markets in a stage of flux. What has also surprised is the rally off the low, essentially gaining back over half the losses to date. One thing to note is this is a fluid situation and we are not expecting a multi-month drawn out situation we saw in 2008, however the possibility of retesting the lows in March is ever present.

Every expansion leads to excessive credit creation and this time it took place namely in the corporate credit market. A recession always creates the most pain where credit and leverage are in excess. These bad actors have been hit the hardest this past quarter and we do not forecast a 'V' shaped recovery. Speaking of recovery, discussion has moved to what kind of shape will we see? Will it be a "V", "W ", "U", "L", we even saw some projections for a 'fish hook' shape where the markets come back but don't take out old highs. We are of the belief that this is not 2008, meaning this is not a financial crisis but a medical one, but the situation is still unfolding with many unknowns (vaccines, anti-virals, second waves, etc.).

So, we will become much more constructive when we see but not limited to:

- Overall COVID-19 data plateaus and efficacy shown in drug testing along with much more accessible testing kits.

- Economy shows signs of re-opening although we acknowledge it will be gradual to start.

- Business conditions stabilize following a complete drop off in March.

- Confidence reinstated by both consumers (65% of GDP is consumer spending) and businesses return to paying dividends and spending on capex. We don't see buybacks (the source of a significant amount of EPS growth) coming back anytime soon.

- Peaks in volatility, credit spreads, USD, and capitulation along with troughs in oil and rates.

The market, and indeed our Fund, has taken a material hit on COVID-19 and rightfully so. But these moves seem to overshoot on both sides. As we write this the market is 20% off its lows (technically a bull market!) but we know the largest rallies occur in bear markets. A recession signals the end, not the beginning, of a bear market and with it brings money making opportunities. We are screening for stocks where the underlying fundamentals are vastly dislocated from its current price. The opportunity set is plentiful.

What is important to understand, is that we are playing defence right now, given the significant unknowns. The phrase "un-investable" comes to mind. The extreme volatility the markets are experiencing are not times to trade wildly and is evidenced by our exposures being cut more than half in the quarter. As such wild upswings in the market will not be completely captured by the Fund, and we will await clarity on the medical issue before making any bold moves (higher or lower). The situation changes day by day, but the further the pandemic continues, the greater clarity we get. By the next commentary we will have significantly more data on the pandemic itself, the effects of social distancing, vaccines, anti-virals and studies on those who carry effective antibodies and the impact of these on getting the world back to work. We share client's disappointment with not reacting faster to the effects of the pandemic, but are very focused on capturing back the lost capital, but also sensitive to the need to preserve capital in these unknown times.

We thank you for your continued support and hope everyone is keeping safe and sane. Communication in times like these are critical and I encourage you to contact me directly at the number below to discuss the myriad of issues that cannot be covered effectively in commentaries such as these.

We look forward to reporting to you at the end of the second quarter hoping life is a little more normal then.

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