JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q2 2020 Commentary

	Q2 2020	YTD 2020	Since Inception
Jemekk Long/Short Fund	19.91%	-5.38%	210.69%
S&P TSX Composite	16.97%	-7.47%	184.87%
S&P/TSX Small Cap Index	38.52%	-14.28%	36.59%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

Market indices staged a wicked reversal in Q2 after the Covid-19 induced panic selling in Q1 with the S&P/TSX index surging by 16.97% and the S&P/TSX Small Cap Index by an astounding 38.52% on the hopes for a strong economic recovery. While both indices were still down year-to-date, after going through one of the greatest biological and economic events to ever impact the world and stock markets, the first half of 2020 declines almost feels reassuring for investors with longer-term views. We witnessed with bewilderment WTI crude oil trading down to a negative price of $37.63 per barrel on April 20th. The poor state of energy markets, as well as having a dearth of large cap technology stocks were major factors of why Canadian indices underperformed U.S. indices. The performance gap between Canadian and U.S. indices was mitigated by the strong performance of gold stocks. The Long/Short Fund had positioned itself at the start of Q2 conservatively with the net long position down around 40%. As we assessed fear was dissipating and risk-reward parameters improving the net long position gradually increased. Currently, the Fund has a net long position of around 65%. We are pleased that the Fund was able to outperform our benchmarks and with much lower risk exposure than market indices.

Market participants, including some here at Jemekk, had underestimated the determination of the American population to strive for normalcy regardless of whether Covid-19 infection rates would continue to rise to levels that most other developed countries would consider unacceptably high. Also underestimated was the effective adoption of social distancing across Europe that has allowed for an even greater re-opening of its economies than in the U.S. Moreover, less developed countries eventually abandoned initially strict lock-down measures despite not having controlled Covid-19 infection rates as the alternative outcomes for many of their citizens were more unfavourable. These factors helped drive a faster recovery in economic activity than many market participants would have earlier believed.

We witnessed the “Mother of all surprises” with the June 5th release of U.S. Change in Nonfarm payrolls for May, which showed a gain of 2.5 million new jobs vs. expectations for a loss of 7.5 million jobs. That bombshell will go down in history as the greatest surprise ever for an economic datapoint. Canada also followed suit with a gain of 289,600 jobs in May vs. expectations for a loss of 500,000 jobs.

Canada has taken a more cautious and measured approach than in the U.S. and it has shown-up on the Covid-19 statistics with total cases and deaths per POP that are about 70% and 44% below the U.S. If not for poor management of nursing homes, which contributed to 81% of all Covid deaths (as of May 25) in Canada vs. around 50% in Europe and 40% in the U.S., the death rate in Canada would be much lower. However, the flipside of much better handling of the Covid-19 outbreak has been a slower restart of the Canadian economy.

The stock market may have experienced a V-shaped recovery, but the idea of a V-shape economic recovery is more uncertain. There are clearly certain stocks that have benefitted from the “stay at home” phenomena, of which most are related to the technology sector. But there has also been strong evidence that demand for goods related to the home, auto and outdoor recreational are fully recovering if not even benefitting from Covid-19 conditions as other avenues for consumer spending, such as sporting events, are either non-consumable or no longer chosen for personal safety concerns.

The V-shaped recovery in many sectors is the result of spending substitution by consumers that are now doing less travel by air, resort vacations, cruises, spending on professional sports, concerts, theatres & cinemas and restaurants & bars, not to mention the many brick-and-mortar retailers that are not well positioned for e-commerce.

3 Church Street, Suite 301 I Toronto, Ontario I M5E 1M2 I 416-597-4502 | jemekk.com

These sectors are facing extreme hardships with many small businesses facing severe consequences that are less directly noticeable in the stock market. So, it is a tale of two worlds – some in V-shaped and some in deep depression mode.

The Jemekk Long/Short Fund had long investments concentrated in Covid-positive stocks and gold. Technology stocks have been a key group in our long portfolio. The top 5 contributing positions in Q2 included two junior gold ETFs, two technology stocks (Shopify and DocuSign) and Airboss, which is a rare direct play on the Covid-19 virus with its business unit that produces powered air purifying respirators that meets high CBRN (chemical, biological, radiological and nuclear) standards. On March 31, 2020, BOS announced a blockbuster US$96.4 million contract for its respirators with FEMA. Also positively contributing to performance in the quarter, ACES, a stock we profiled in a previous commentary, received a takeover bid on June 11 from a private equity fund.

We believe the conditions for gold have never been as positive as it is today with high government deficit spending and a surge in the money supply. The idea that inflation will return at some point is what drives the fear of the erosion in the value of fiat currencies that has contributed to the rise in the gold price. If or when inflation becomes a near-term concern gold will become an even more attractive investment vehicle.

We would also like to introduce you to a new holding:

Andlauer Healthcare Group Inc. (AND) - A company that IPO'd in December 2019, Andlauer Group is a leading healthcare logistics company in Canada. Specifically, AND has a presence in nine provinces and handles about a third of the market based on revenues from the top 30 pharmaceutical manufacturers and has a ~10% market share of the outsourced healthcare logistics market. We outline our high level thesis on AND below:

Moat - Andlauer is foremost in an industry with high barriers to entry given its highly regulated environment, extensive due diligence from customers and national scale which would take years to replicate. The preceding keeps competition from entering AND's market but along with that AND has a distinct service offering that further deepens its moat. AND has proprietary technology that provides customers with real time visibility on their products throughout the entire supply chain process. AND's services also include temperature management, quality assurance, compliance and security. These services are highly regarded by its customers.

Favorable Fundamentals - AND is an asset light business that has enjoyed stable EBITDA margins (~24%) and an average FCF conversion of ~40% from 2016-2019. We should also note, Andlauer's margin profile is well above industry peers which speaks to its competitive advantage. We see revenue growth in the mid-high single digit range in the foreseeable future.

Valuation - The stock currently trades at 20x 2020 EBITDA and is trading near or through analyst price targets. We acknowledge this is not a value play but given the above we are comfortable staying long but will manage the position accordingly since liquidity is an issue too.

We like Andlauer's unique positioning as the only nation-wide, third party logistics (3PL) and transportation company solely focused on the healthcare sector. The company does come with risks as well. Namely, emergence of a competitor, new regulation in the healthcare logistics space, and pricing pressure to name a few. With that, we feel confident the management team at Andlauer will navigate through these potential headwinds effectively.

While the outlook for global economic recovery has markedly improved substantial risks remain. There exists potential set-backs if Covid-19 infections were to rise to unacceptable levels, as we have seen in some hotspots in the U.S. and elsewhere. The outlook for earnings is abnormally wide ranging and valuations are tracking less consistently to historical norms. Jemekk has this backdrop in mind as our firm strives to be stewards of our client's investments.

We thank you for your continued support and hope everyone is keeping safe during these difficult times. We look forward to reporting to you at the end of the third quarter.

Gerard Ferguson: 1.416.777.4491
Rick Ummat: 1.416.777.4496
Michael Lam 1.416.597.4502