JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q2 2020 Commentary

	Q2 2020	YTD 2020	Since Inception
Jemekk Total Return Fund	13.55%	-2.17%	92.27%
S&P TSX Composite	16.97%	-7.47%	67.95%
S&P 500	20.54%	-3.08%	204.14%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

We witnessed an astounding reversal in stock indices in Q2 after the Covid-19 induced panic selling in Q1. The Jemekk Total Return Fund had positioned itself at the start of Q2 very conservatively with the net long position down to around 25%. As we assessed fear was dissipating and risk-reward parameters improving the net long position gradually increased. But given the great uncertainty on the Covid-19 impacted economic outlook and the Fund's emphasis on risk management the net long position had consistently remained below its historical net long range of 60-70%. Currently, the Fund has a net long position of 55%. While our ongoing cautiousness constrained our returns during a period of surging stock prices it likewise helped mitigate losses during the panic selling in Q1. We are pleased that the combined outcome resulted in first half 2020 performance that showed lower losses than our key benchmarks, and importantly, with much lower volatility.

The economic outlook in April was dire with an unprecedented surge in unemployment during the month. However, government interventions appeared to show success in gaining control of the Covid-19 outbreaks in both North America and Europe with the beacon being the gradual success in flattening the curve in New York City. This reduced investor fears of the worst-case scenarios and helped kick-start the stock market recovery.

Then what many market participants, including some here at Jemekk Capital Management, 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.

In May, we began to see a series of U.S. economic releases that consistently surprised the market to the upside. We had an ISM Manufacturing reading of 41.5 vs. 36.0 expectation.

U.S. vehicle sales declined year-over-year, but they were 22% above expectation. NFIB Small Business Optimism had a reading of 90.9 vs. 83.0 expectation. New home sales for April were up marginally month-over-month vs. expectations for a decline of 23%

And then the "Mother of all surprises" occurred 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. A subsequent bombshell fell when the June 16 release of U.S. Retail Sales for May was a shocking 17.7% increase, double the consensus expectation for an 8.4% recovery after April saw a decline of 14.7%. That datapoint confirmed the resilience of the U.S. consumer and further highlighted the dynamic business strengths of any company that can effectively cater to the "stay at home" phenomena.

Following those two bombshells, subsequent datapoints continued to support the positive momentum in the economic outlook. We saw upside surprises in U.S. new and existing home sales and then the Change in U.S. Nonfarm Payrolls for June was another big positive surprise with an increase of 4.8 million jobs vs. the 3.2 million expected increase

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 Jemekk Total Return Fund had long investments concentrated in Covid-positive stocks and gold. Technology stocks, especially those that benefit from the stay-at-home phenomena have been a key group in our long portfolio. The longstanding core of the Jemekk Total Return Fund has been, and continues to be Adobe, Microsoft, Salesforce.com, and Shopify. That group of stocks was a major contributor for the Fund's outperformance in the first half of 2020. During the quarter, the Fund added Amazon, the ultimate stay-at-home stock. The Fund also had long positions in other companies that may not structurally be Covid-positive, but whose strength in brand, product and execution made them stand-outs during the pandemic. Such companies include Lululemon and Boyd Group.

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 for the Fund.

DocuSign Inc. (DOCU) - A company we have long favored, DocuSign was a recent add on the market selloff for its expedited Work From Home (WFH) software. DOCU allows businesses to sign off on contracts digitally via an 'eSignature.' Pre-Covid, DOCU was doing well with consistent revenue growth and stable margins. With the WFH phenomena not only will revenues grow faster but the Total Addressable Market (TAM) will increase as well as we see more companies adopting the software that may not have initially. The near-term revenue growth is not stealing from future growth either as we believe the pull forward is additive to DOCU's core level with the potential of management increasing guidance.

When analyzing software companies, the Rule of 40 is something we look at - combined revenue growth + profit margins are in excess of 40. DocuSign not only passes this test but also has the potential of surpassing 50 as revenues grow faster than expected. DOCU is a rare technology company that delivers both growth and margins. DocuSign has only penetrated less than 2% of its estimated TAM ($50b), which we believe is going to continue to grow. Another key metric we look at is the Net Retention Rate. DOCU, unsurprisingly, screens in the top decile which speaks to the stickiness of its model. Meaning, once you adopt the software you don't revert back nor do you switch to a competitor. A comment on competition; the only viable comp is an offering from Adobe. From our analysis, DOCU's product and overall Contract Lifecycle Management (CLM) ranks superior to Adobe's. DOCU is much more robust with respect to its configurability, security, and scalability.

The stock has had a considerable run since we bought it and acknowledge the current valuation is rich. That said, we believe DOCU has a sustainable leadership position with a tremendous market opportunity ahead of them. The company has also made some interesting acquisitions to allow for cross/up-selling and overall expanding its product platform.

While the outlook for global economic recovery has markedly improved substantial risks remain. There exist potential setbacks 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. We have 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