JEMEKK HEDGE FUND

Inception date: August 1999
Q3 2020 Commentary

	Q3 2020	YTD 2020	Since Inception
Jemekk Hedge Fund	4.38%	2.40%	549.05%
S&P TSX Composite	4.73%	-3.09%	289.86%
S&P 500 Composite	8.93%	5.57%	280.54%

**Benchmarks quoted in Total Returns*

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The first half of Q3 witnessed a continuation of the Q2 recovery in equities led by technology, gold, and companies that have benefitted from Covid-19, specifically stay at home companies. The strength of the upward trends were impressive, showing the ability to shake off even significant concerns about political and trade risks, especially given heightened tensions between the U.S. and China. But the second half of the quarter saw weakness and a consolidation. First, we saw a US$116/oz drop in the gold price after it had set a new closing high just two trading days earlier, then we saw the technology-heavy NASDAQ correct 10.4% before recovering and ending down 5.8% for September. We believe these abrupt uptrend breaks are understandable given their exceptional outperformance to date, but we do not believe they represented longer-term trend reversals and hence we remain committed to our positions.

The global economy had steadily improved during the third quarter with a general re-opening of economic activities. However, we are witnessing a disconnect between the strong uptrends in stock indices and the much weaker global economic conditions relative to prior to Covid-19, meaning you can have a V-shaped market recovery and not an economic one. One of the key factors driving this phenomenon was highly accommodative government fiscal and monetary policies done on a massive scale, which has also provided an underlying catalyst for precious metals. The economic recovery has also been very uneven with a substantial shift in consumer demand from services and into products as people spend less on travel and entertainment and more on hard goods and home improvements. We remain cautiously optimistic on continued gradual improvement in global economic activity, but are highly cognizant of the downside risks given what could be overly positive sentiment on the outlook for many aspects of the stock market and the still uncertain outlook for Covid-19 - second wave.

The Jemekk Hedge Fund has largely maintained its investment positions throughout the third quarter. Despite the uptrend breaks in Covid-positive stocks (and gold), we remain positive on the outlook for these sectors as we believe that life will not fully return to pre-Covid levels even with successful vaccines, and the massive stimulus that is ongoing. But these companies are more than just about having Covid-positive attributes, they all have strong long-term growth with exceptional brand value. The Fund owned many of these names prior to Covid-19, specifically, the longstanding core names which includes Adobe, Airboss, Lululemon, Microsoft, Salesforce.com, and Shopify, with Amazon a more recent core holding bought during the second quarter.

Salesforce.com (CRM) - A company we have owned in the Fund for years, Salesforce.com was the largest contributor of performance in the quarter. We have highlighted CRM in the past but wanted to restate our thesis on the stock and how its capitalizing on what we believe is one of the most powerful secular trends, E-commerce.

Salesforce has underperformed other cloud providers over the last two years. Common criticism has largely been its muted margin expansion and aggressive acquisition history. The company silenced all critics during Q2 by reporting a blockbuster quarter. Key in the quarter was the 430 basis point beat in margins and impressive performance from recent acquisitions. This led to a 25% move in the stock, igniting the entire cloud complex.

CRM's core business is doing well but we are also excited about its Customer 360 and Commerce Cloud offerings and how its helping businesses connect to its customers. For example, during the pandemic buying online and curb side pickup has been normalized and the technology that enables this is the integration of Commerce Cloud, an order management solution, and Service Cloud resulting in an end-to-end customer experience.

Ultimately, Commerce Cloud allows customers to digitize their customer experience. Salesforce recently unveiled a new product called Digital 360, a new data platform for marketers and Commerce Cloud Payments. This software should allow the company to continue to monetize its investments in the e-commerce space.

Salesforce continues to be a core holding for the Fund. The company is firing on all cylinders and exposure to new growth verticals is not being properly valued in our opinion. Valuation is also attractive trading at 9x Sales much lower than other cloud companies. Also, some of the contested acquisitions the company has made in recent past now look genius both from a strategic and a valuation standpoint. For example, if Tableau was still public it would be trading at an elevated valuation from where CRM bought it making it almost unattainable (CRM bought Tableau in June 2019 for $16b implying a 9.5x forward Sales multiple. The peer group is trading at two times that valuation now!).

Elsewhere, a theme we would like to highlight is Precious Metals. The thesis is fairly straightforward as we believe we are early in a secular change, driven by:

- Persistent low to negative rates globally, providing a boost to an under-owned Precious Metals group as a store of wealth.
- Spiraling global deficits and debt at the sovereign level.
- Scarcity of new resources, and lack of material discoveries over the past decade(s).
- A sector that has been transformed from poor capital allocation, over leverage and speculation to under-levered, free cash flow machines, directly correlated with improvement in prices.

These are only a few of the reasons underpinning our thoughts, in fact the one weakness to our thesis is the lack of “new” catalysts to propel the group higher, rather than only a continuation of the above. As such we continue to own names such as B2 Gold, Osisko and Kinross and have begun to move into smaller emerging names recently.

As we enter the fourth quarter of 2020 many risks remain, including Covid-19, trade issues and the Presidential election. Although we are towards the upper end of net long range (72% net long, 1.08X levered) the liquidity of the Fund allows us to ratchet down exposures if conditions deteriorate. We remain comfortable but are looking for opportunities to add to our short book as the quarter continues.

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 fourth quarter.

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