JEMEKK HEDGE FUND

Inception date: August 1999
Q1 2021 Commentary

	Q1 2021	YTD 2021	Since Inception
Jemekk Hedge Fund	0.29%	0.29%	566.35%
S&P TSX Composite	8.05%	8.05%	359.04%
S&P 500 Composite	6.17%	6.17%	353.12%

**Benchmarks quoted in Total Returns*

We entered 2021 optimistic on the outlook for equity markets but were cautious about the extent of re-opening activities. The relatively rapid roll-out of vaccinations in the U.S. has allowed for a steady pace of improving mobility levels with an especially notable uptick in their domestic leisure air travel. However, our concerns that many regions in the world would see daily tally of infections continue to set new records and where imposition of stricter lockdowns would occur, have proven warranted. We have also been satisfied that President Biden appears to be governing more towards the center-left as opposed to the more highly progressive agenda from some in the Democratic party. Combined with continued highly stimulative fiscal policies, as highlighted by the passage of the $1.9 trillion "American Rescue" plan, as well as monetary policies, we view the overall backdrop as being very supportive of higher equity values. We saw strong gains in stock indices Q1 with the S&P up over 6%, while the TSX's higher gains reflected the strength in cyclicals, particularly in banks and commodity stocks. The gold price weakened despite highly stimulative fiscal and monetary policies, which appeared to be attributed to investor flows more into equities and cryptocurrencies. The Fund underperformed its respective benchmarks in the quarter being underweight cyclicals. However, we believe some of these overheated names will cool down and more attention will be on the current Fund's positioning going forward.

The Jemekk Hedge Fund entered Q1 with 76% net exposure, but we did not anticipate the magnitude of the rotation into value from growth, especially into the highest beta re-opening stocks. The Fund did benefit from some exposure to value and cyclical stocks with the top performers being General Motors, Stelco, and Air Canada. The top performer for the Fund was AirBoss, which arguably is perfectly thematic to our view that Covid challenges, and the need for mitigation activities, would remain for some time.

Frank Mersch, CFA
Portfolio Manager

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

With price gains in our remaining positions in Variable Rate Preferred shares, which followed the rise in interest rates, we decided to exit those positions at this time. Notwithstanding, the Fund's position bias to Covid-negative stocks and weakness in gold mitigated the Fund's performance in Q1. The Fund exited the quarter 65% net long.

Our economic outlook into 2022, which presumes consumer behavior will still be influenced by Covid-19 related behavior changes, remains largely unchanged. We are expecting a major recovery in certain leisure activities, with restaurants and domestic travel likely having the strongest metrics, but believe international travel and activities involving large gatherings and highly crowded venues in the past to remain constrained in most parts of the world relative to pre-Covid-19 levels. Market expectations may also be under-appreciating what we believe are margin pressures on many leisure businesses due to capacity limits and/or Covid-19 control and mitigation costs.

Given our macro views, the Fund continues to be positioned with a bias towards an economic outlook where Covid-19 continues to have significant impact on consumer behavior towards higher spending on products and "at home" and less on leisure and services. We view our core growth stocks, which include highly profitable technology companies like Adobe, Amazon, Facebook, and Microsoft, as well as brand leaders like Lululemon, as having attractive metrics. Admittedly, the onset of Covid-19 was positively influential but is ultimately only a small factor to their long-term growth outlook that is substantially driven by their respective secular trends.

After gold prices consolidated in Q4/2020 they dipped below what we earlier believed to have been a support level.

We continue to believe gold prices will ultimately react to highly stimulative fiscal and monetary policies around the world and are not convinced that cryptocurrencies have displaced gold as the primary investment vehicle as a hedge against currency debasement and inflation. We remain invested in gold equities, but have reduced our exposure to reflect the recent incongruities to historical norms as it pertains to movements in gold prices and changes in the macroeconomic backdrop.

Following, we would like to highlight a new position in the Fund:

PayPal Holdings Inc. (PYPL) - Approaching 400mm consumers and 28mm merchants globally, PayPal is the leader in digital commerce with a mission to democratize financial services. We believe people are familiar with the core PayPal business but PYPL has several other complimentary businesses such as: Honey (online coupons and discounting); iZettle & Xoom (payment processing); and the wildly popular Venmo (peer to peer transfer) that all drive user engagement as well.

PayPal hosted an impressive investor day in February confirming the company's robust and sustainable growth outlook. One key takeaway is PayPal becoming a 'Super App', meaning starting off as a payment app and expanding into other applications while staying within the PayPal umbrella. We are cautious on this stance, but we definitely see PYPL becoming a Super *Digital Finance* Application, offering their users all that is required to transact online. Some notable investor day highlights: Targeting 750mm users by 2025 (15% CAGR); Revenue and EPS five year CAGR 20% & 22% respectively; Total Addressable Market ~$110T; and aggressively expanding internationally. Digital payments are truly borderless, and management is laser focused on capitalizing on that.

PayPal was performing well pre-COVID, and it is no surprise the pandemic helped turbo charge its business. The explosion in e-commerce with consumers demanding seamless checkout and reliable peer to peer technology shined a light on how valuable the PYPL platform is for both merchants and consumers. However, we do not see activity slowing down once the pandemic is over. PayPal has expanded its offering materially over the years resulting in a growing customer base. These users have moved from using one PYPL service to engaging in cross-platform services resulting in the customer being stickier to the PYPL flywheel. As the world continues to go digital the management at PayPal understands its leadership position and will invest to benefit from this massive opportunity.

While there remains a near-term challenge in battling new Covid-19 variants in many parts of the world the economic outlook in the second half of 2021 has generally become less uncertain given the proven efficacy of vaccines and the highly visible planned roll-out of vaccine supply in the coming months. We are optimistic on the overall economic outlook and will continue with our rationale of which sectors and stocks offer the best risk/reward parameters.

We thank you for your continued support and after a long winter we hope all will be able to better enjoy what life has to offer this upcoming summer. We look forward to communicating with you at the end of Q2.

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