JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q2 2021 Commentary

	Q2 2021	YTD 2021	Since Inception
Jemekk Long/Short Fund	2.74%	8.15%	282.04%
S&P TSX Composite	8.54%	17.28%	281.31%
S&P/TSX Small Cap Index	9.15%	19.78%	115.43%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

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Portfolio Manager

Market conditions were favorable throughout the quarter with an improving global economic outlook driven by vaccination drives in OECD countries and continued highly accommodative fiscal and monetary policies. The S&P/TSX Composite and Small Cap indices chalked up total returns of 8.54% and 9.15%, respectively. The effectiveness of vaccines and witnessing countries recently allowing a greater part of their economy to operate when virus outbreaks occur have made us more confident the global economic outlook will remain on an upward path. Improvement in employment levels in Canada are now catching-up with the U.S. with a whopping 230,100 jobs added in June that reduced the unemployment rate to 7.8% from 8.2% in May. With the outlook for increased fiscal stimulus from the Biden administration and the U.S. Federal Reserve signaling no change in near zero short-term interest rates or even tapering of asset purchases in the near horizon the conditions remain supportive for equity indices to continue to march higher.

The Jemekk Long Short Fund's greater focus on stock picking vs. macro themes was challenged in the quarter due to the ongoing and broad outperformance of value vs. growth and the Fund's lower exposure to cyclicals. But what surprised us most were the continued outsized gains from the highest beta re-opening stocks, which we view as having even further stretched valuations. That said, Shopify once again showed its unwavering rising star status with strong gains that resulted in contributing the highest gains for the Fund in the quarter. As our outlook modified to assume a stronger than earlier believed impact from re-opening of businesses, especially in North America, the Fund did make some adjustments including adding Everi, which we viewed not only as a high-quality business but also one of the few high-beta re-opening plays that was trading at an attractive valuation. Other re-opening plays in the Fund, such as Lightspeed, also contributed solid gains.

RCI Hospitality is another holding in the fund that is a high-beta re-opening play with attractive valuation metrics but had subdued performance in the second quarter, though we feel it's upside potential is unchanged. Two other top gainers in the quarter for the Fund included Stelco and Overstock.com, where we saw an opportunity as a unique under the radar e-commerce story with a cryptocurrency call option.

The Fund's underperformance was attributed to generally muted performance from our portfolio of consumer non-cyclical names, especially within the cannabis sector. There was also a pullback in a couple of our positions that are deemed to be Covid-19 beneficiaries, which we continue to hold given our view of their strong sales outlook even in an environment Covid-19 is under control as we see a permanent change in adoption of their products and services in the aftermath of Covid-19.

While the Fund sees opportunities in select value stocks, the focus continues to the favoring of companies with strong secular growth prospects. We believe, especially with smaller cap companies, that in the long-term, growth will prevail over pure value. We are particularly cautious in avoiding valuation challenged high-beta re-opening stocks, which we strongly believe offer poor risk-reward dynamics. Notwithstanding our modified views that consumer activities in 2022 will be closer to pre-Covid-19 levels than previously forecast, we still believe international travel and activities involving large gatherings and highly crowded venues will still see constrained activity levels to one degree or another. This is the result of exclusion of those not vaccinated for certain activities and events as well as a percentage of the population that will choose to exercise more social restraint than they had in the past.

Following, we would like to highlight a new position in the Fund that was the result of a spin-off from our existing holding in IAC/InteractiveCorp:

Vimeo Inc. (VMEO) - A significant catalyst we have been waiting for occurred in the second quarter. IAC/InterActiveCorp successfully spun-out Vimeo. In the following, we will illustrate why we are bullish on Vimeo and still long IAC post spin off.

First a refresh on IAC. We have owned this name for some time now because of its sterling track record of buying early-stage companies and incubating them resulting in lucrative exits. Too many to highlight but Expedia and Match Group are major ones and even Vimeo (in 2006 IAC paid $20mm for Connected Ventures, the parent of College Humor, and where Vimeo was an add on company not really being valued but which has now been spun out at an $8b valuation!). The management at IAC put their incredible capital allocation in view once again when they purchased $1b of MGM Resorts last August and that current stake is now worth $2.4b. Along with this MGM stake, other notable holdings include Dotdash (search and specialty websites), stakes in Turo (peer-to-peer ride sharing), Angi Inc. (online home improvement application), and Care.com (online family care sourcing). Even with the Vimeo spin-off we feel IAC is trading at a discount and much like their other assets their current holdings are being valued too conservatively. We should also mention the company has $3b in cash to deploy. This equates to approximately 20% of its market cap for a team of proven capital allocators – Overall, it is hard not like the set up going forward.

Vimeo has always had a bit of an identity crisis, often being confused with an ad driven business like YouTube. The company has not done a good job positioning itself better in the early days. The current CEO, Anjali Sud, who was the former marketing director, planned on changing the narrative from a company focusing on videos for filmmakers to a company focusing on enterprise businesses and implementing a subscription-based model. Vimeo is a fast-growing SaaS platform for professional video creation.

Vimeo began trading in May and much like most spin-offs was met with a lot of selling pressure from IAC holders who flipped it out - stock opened at $54 and a week later was $40.

We held on, and while the stock has since recovered as folks are understanding the story better, we feel it has a long way to go. As we do not currently have a full position we will be looking to add as the company executes. Below is a summary of why we like the stock:

- **Large TAM** - VMEO is chasing a $70b Total Addressable Market and is highly under-penetrated as of now. We acknowledge there was a COVID boost to sales but do not see this trend fading. With 1mm+ enterprise and 300mm SMBs, Vimeo is currently less than 1% of this TAM. We feel street estimates (30% Revenue CAGR through 2026) are beatable.
- **Freemium to Paid Opportunity** - VMEO plans to double its salesforce this year to 150 as it sees strong opportunities to increase new users and, more importantly, convert non-paying users to paying ones. There is also an opportunity to upsell existing subs to higher tiers as Vimeo invests in its offering. EBITDA margins are flat as of now but as the company scales it will become highly profitable as the flywheel kicks in.
- **Video Use in Early Innings** - Customers like Amazon and Nike are using Vimeo and we see a material increase in enterprise adoption going forward. A further tailwind to this is the additional use cases of video we see emerging. As video becomes more of a communication medium, companies like Vimeo will benefit because of its ease of use (no programming language required) and the level of sophistication of the final product.

We thank you for your continued support and look forward to communicating with you at the end of Q3.

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