JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q2 2021 Commentary

	Q2 2021	YTD 2021	Since Inception
Jemekk Total Return Fund	5.16%	5.34%	113.92%
S&P TSX Composite	8.54%	17.28%	124.81%
S&P 500	8.55%	15.25%	328.21%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

At the start of the second quarter, we had a favorable view of the overall global economic outlook. This was driven by an expected resurgence in North America and Europe where there appeared to be good visibility for a steady re-opening of activities due to their vaccination drives. For the first time since the Covid pandemic began we felt less need to be cautious about the risks of virus outbreaks as we saw both the tailwind of vaccinations and a more recent history that showed countries allowed a greater part of their economy to operate when outbreaks occurred than during the first wave. That said, the more recent headlines of the Delta variant impacting OECD countries is causing us to be more mindful of any heightening of risks. Continued highly accommodative fiscal and monetary policies appear to be funneling liquidity more into assets than consumer spending, which is not only a fuel for equity markets but also appears to be suppressing interest rates due to bond purchases by the U.S. Federal Reserve. Market indices extended their upward trends with the S&P/TSX and S&P500 both notching total return gains of 8.5% in the quarter. The Fund underperformed its respective benchmarks in the quarter as it continued to be underweight cyclicals and gold equities continued to perform incongruently to its historical behaviors when money supply grows at an abnormally high rate. We continue to believe in being overweight high-quality secular growth stocks, which after lagging for much of Q2 began to outperform market indices in June. As well, we believe the recent turmoil in cryptocurrencies will shine a light back onto gold as the historically preferred vehicle to invest when there is high growth in the money supply and high inflation.

The Jemekk Total Return Fund entered Q2 with 65% net exposure which reflected our moderately bullish stance regarding equity markets. However, the continuing magnitude of the rotation into value from growth, especially into the highest beta re-opening stocks had surprised us once more.

The top gainer for the Fund was one of our most favored long-term core holdings – Shopify, which defied the general trend of value over growth during the quarter. We also had another sector winning outlier in Osisko Royalties, which posted strong gains while the gold sector in general was down. Stelco, which had provided consistent gains for the Fund in the past year, performed strongly again in Q2. The Fund sold West Fraser Group as the lumber & housing sector seemed a bit over-stretched, notwithstanding our belief of the housing sector's longer-term secular tailwinds. The Fund exited the quarter with a higher net long position of 82% as we became more confident regarding our bullish view and the lower risk profile of market indices.

We have modified our economic outlook into 2022 in that we see a return of consumer behavior that will be closer to pre-Covid levels than we earlier envisioned. More activities that involve closer social contact are being allowed, which we have already seen the consumer strongly embracing. That said, we still believe there will be lingering effects from Covid-19 on consumer preferences going forward. These are likely to include a degree to which a percentage of the population works from home, a preference for personal vs. public transport, a reinvigorated desire for local outdoor recreational activities, and an increase in vehicle-based vacation travel, which would be positive for gasoline consumption as well as being another tailwind for vehicle sales, maintenance & repair.

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.

We still believe for some of the highest beta re-opening stocks investors may be under-appreciating what we believe are margin pressures due to capacity limits and/or Covid-19 control and mitigation costs. Our macro views may have been tweaked, but our view that high-quality growth stocks with a long runway of secular growth is one of the most attractive investment sectors is unchanged. Our core holdings remain with profitable technology companies like Adobe, Amazon, Facebook, and Microsoft, as well as brand leaders like Lululemon. And we are confident SHOP is on the path of joining the same stage as the above-mentioned technology leaders in terms of profitability.

Exposures to our above-mentioned macro themes includes Air Canada, Boyd Group and General Motors. And as part of the portfolio positioning for a greater than earlier expected impact from re-opening activities we added energy with ARC Resources, Occidental and Tourmaline. These E&P names also comes with other bullish themes such as capital discipline constraining supply and our view that long-term demand for gas from western Canada (and the U.S. south) now has a macro tailwind after a decade of headwinds due to the rapid growth of gas production from Appalachia that now appears halted due to extreme difficulty in building new pipelines to transport natural gas out of that basin.

The Fund also increased its exposure to the North American banking sector due to the tailwind of upcoming large share buybacks and with a continuing outlook for strong profitability.

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

ServiceNow Inc. (NOW) - With almost 7,000 global clients, ServiceNow is a SaaS vendor of applications focused on defining, structuring, and automating workflow. The ServiceNow platform aims to deliver a digital work environment by unlocking productivity and eliminating an organization's dependence on archaic spreadsheets and communication systems.

ServiceNow has four main 'Workflows' - (1) Information Technology: digital workflows bringing together IT needs, risk management, and security operations onto a single platform; (2) Employee: connect employees in an engaging experience that promotes collaboration; (3) Customer: going beyond traditional CRM platforms with the aim of automating all key areas in customer operations and drive loyalty and connect all departments for seamless communication; (4) Creator: empower developers with low-code tools and templates to build applications for their organizations.

From the key performance indicators we look at, there is a lot to like about NOW. For example, given that net new business growth, which is a leading indicator for revenue growth, is increasing in the first half of '21 versus second half of '20 suggests NOW may reaccelerate growth in 2022. The 'Rule of 40' (Revenue Growth + FCF Margins) is a metric we look at and NOW is scoring approximately 60, an industry leading number positioning NOW as a unique business offering both substantial revenue growth and high profitability. Annual Contract Value (ACV) provides useful insight into customer expansion. The ACV for NOW has been trending well over the past 10 quarters from both the number of customers with $1mm+ ACV and average ACV of customers with $1mm+ ACV. NOW also addresses a very large Total Addressable Market (TAM) estimated to be ~$175b in 2024E.

The company recently hosted an investor day with several notable announcements. For example, management introduced a new $15b revenue target by 2026. This implies a low 20's six-year CAGR. Nearer-term, NOW provided a revenue target of reaching $10b in subscription revenue by 2024. These two targets are based on the company's current business offerings, meaning no material M&A is needed to achieve these numbers. We are very pleased with this as we shy away from tech companies that are heavy into inorganic growth. NOW also increased its FCF margin profile from 30% to 33% in 2024. Overall, NOW reminds us of a Salesforce.com but without the aggressive M&A. We look forward to seeing management meet and exceed these targets.

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

Gerard Ferguson: 1.416.777.4491
Rick Ummat: 1.416.777.4496
Michael Lam 1.416.597.4502