JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q4 2021 Commentary

	Q4 2021	YTD 2021	Since Inception
Jemekk Long/Short Fund	-4.10%	1.22%	257.59%
S&P TSX Composite	6.47%	25.09%	306.69%
S&P/TSX Small Cap Index	3.03%	20.27%	116.31%

* Benchmarks quoted in Total Returns

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Solid gains in Q4 capped off a big year of gains for market indices. There was strong optimism that Covid-19 would not be a hindrance to a strong recovery in global activity levels in 2022. Even the emergence of the Omicron variant was viewed as a temporary setback towards the end of the year. Global macroeconomic indicators remained strong, if not further strengthened. After many failed attempts it appeared that the rotation towards value stocks and away from growth stocks had finally found a strong foothold towards the end of the year. We also saw a major narrative shift in the consensus belief that inflation was no longer transitory, but now ingrained. While the U.S. Federal Reserve announced a tapering that was subsequently accelerated, other central banks appeared to be more ahead of the curve. The Bank of Canada abruptly ended quantitative easing, completely bypassing a taper phase, while the Bank of England had a surprise interest rate increase. We certainly believe inflation and an outlook for higher interest rates will be a key narrative to start 2022 regardless of how either will ultimately play out later in the year. That said, we view the more important consideration in our stock selection process is our favorable view of the global economic outlook due to expectations for very healthy consumer demand and increasing global mobility in 2022.

Disappointingly, the Jemekk Long/Short Fund underperformed the indexes in the fourth quarter, and for the year. Although our hedges, and conservative approach to the year is partly to blame, our sector positioning was the main culprit. Two of the best performing sectors, Financials (+32%) and Energy (+42%) were significantly underrepresented in the Fund for the year and thus we missed out on very large contributors. Clearly, we were late on reacting to the shifting changes of inflation expectations and the resulting actions of the Fed to tighten earlier than we had anticipated. This was most apparent in the fourth quarter.

As of writing this commentary we have begun to make this adjustment as it appears inevitable that 2022 will be a year of rising rates, something not experienced in quite some time. As such, we have moved to increase our later cyclical exposures to Energy at the expense of Technology, which has been a material contributor to the Fund in recent years. An area where we were exposed that we have talked about in the past, Precious Metals, underperformed in the year costing us performance as the move in real rates created a tough headwind for the commodity and thus our equity exposure. Although we still believe in the longer term fundamentals for the group, we have cut our exposure until we see the market adjust to the new, higher environment of rates.

Specifically, within the Jemekk Long Short Fund, we generated strong positive returns from our less sector specific selections where the top gainers included AirBoss, Osisko and Trisura Group. However, the Fund's exposure to the cannabis sector as well as Canadian technology names contributed to a tough fourth quarter, which accelerated as the year ended due to tax loss selling (US MSO's) and portfolio repositioning away from growth (Tech) and towards more cyclical sectors (Oil and Base Metals). On a year-to-date basis, long term holdings, AirBoss, Stelco, and Kelt Exploration accounted for the majority of our gains, while our cannabis names (AYR.a), index shorts, and techs (addressed above) were the main detractors.

Towards the end of Q4 and thus far into early 2022 the Fund has rotated a larger percentage of the portfolio into value-oriented names by increasing weights in the financial, energy, and material sectors. That said, we believe some of the growth-oriented and cannabis-related stocks that were underperformers in Q4 were incongruent with our view of their fundamental value.

Therefore we continue to have confidence in their recovery even in a macro environment that may still favor value stocks vs. growth stocks. We continue to have strong conviction in our stock selection, which is reflected in ending the year with a bullish bias in portfolio positioning (net exposure of 82%, towards the higher end of our range). Although the market will remain volatile (hypersensitive to inflation changes and Fed responses), we still expect a strong economy, and our stock selection will lead to an improved 2022.

As per usual, we would like to highlight a new position in the Fund that plays into the shifting rotation in the market:

StorageVault Canada Inc. (SVI) - The largest and fastest growing storage company in Canada, StorageVault manages 228 locations nationwide. Along with providing storage solutions to individuals and commercial clients, SVI also provides data storage, manages data, and offers shredding services as well.

Why we like SVI:

- **FCF Conversion** - We tend to shy away from roll-ups heavily dependent on equity financings. SVI has a high EBITDA to FCF conversion (~50%). Meaning the company can self-fund acquisitions (depending on size) in the near future and SVI is estimated to generate over $100mm in FCF over the next two years.

- **NAV Expansion Profile** - The Net Asset Value Per Share is a key metric for determining the value of a REIT. SVI has achieved a growth rate in NAVPS of ~35% since 2017 with estimates of ~15% over the coming years. We believe estimates are low and SVI will be able to surprise to the upside given management's impressive track record.

- **Growth Opportunity** - SVI's platform has grown rapidly over the past few years through organic growth (7% from 2016-2020) along with accretive acquisitions. Management has been disciplined with acquisitions with high internal hurdle metrics (cash on cash return and IRR) and we believe the growth opportunity remains favorable. The self-storage industry is highly fragmented and SVI is the leader but still only has 8% market share.

StorageVault is still in the early innings of a growth phase especially compared to US peers. The backdrop remains robust for SVI - lack of new supply in Canada and low demand penetration versus the US sets the stage for accretive growth for SVI for years to come. That said, valuation and execution risk are areas we will be monitoring carefully.

We are clearly not happy with how we performed on both an absolute and relative basis. From an absolute basis, the effects of Covid and Delta were not enough to derail the indices and our conservative posturing (index shorts) weighed on the Funds. From a relative standpoint, we did not forecast such strong performance from Energy, Real Estate, and Financials and as such our underweighting was a material detriment to performance. It's a new year and although just a calendar flip, we have a fresh perspective on positioning and sector allocations and have been more active than usual. We are keenly focused on Fed messaging and inflation and continue to find stocks with attractive risk/reward ratios, even in this new environment, and after a big year. We are not forecasters by any means but one thing we know for sure is 2022 and volatility will be synonymous, and we remain focused and nimble.

We thank you for your continued support and look forward to communicating with you at the end of Q1.

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