JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q4 2021 Commentary

	Q4 2021	YTD 2021	Since Inception
Jemekk Total Return Fund	-0.23%	2.48%	108.12%
S&P TSX Composite	6.47%	25.09%	139.77%
S&P 500	11.03%	28.71%	378.19%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

Market indices had a very strong Q4 with the S&P up 11% and TSX up 6.5% that was fueled by increasing optimism on global economic recovery and growth. Consumer spending intentions and employment trends have been strong worldwide during the quarter and we expect it to continue into 2022. The market sentiment included decreasing concerns regarding the 2022 activity outlook stemming from the Covid-19 pandemic, even in the face of the Omicron variant that appeared in the fourth quarter. However, a consequence of such macroeconomic demand pressures has been the shift on the consensus narrative that inflation was likely transitory to what now seems ingrained, at least in the medium term. We had early on highlighted our belief that inflation was seemingly becoming less transient and more structural in nature, but concerns did not move to the top of the minds of most investors until later in Q4. The S&P growth sectors still outperformed, but it was heavily influenced by the surge in the share prices of just two heavily weighted stocks, Apple (up 24%) and Tesla (up 38%) which masked the sectoral move towards Value over Growth. As we look to 2022, we continue to have a favorable view of the global economic outlook due to expectations for very healthy consumer demand and increasing mobility after the Omicron variant wave completes its infection cycle.

The main takeaway/shift from what occurred in the fourth quarter was the narrative towards inflation and higher rates, and the swiftness of that change, which led to that big shift towards Value over our Growth orientation Although the Fund adjusted to this new environment as the year ended and 2022 has begun, clearly we waited too long to implement these changes, missing out on the strong performance of Q4.

The Fund underperformed its benchmarks in Q4, and for the year in 2021 predominately due to the Sector exposures in the Fund which was twofold.

First, our exposure to the best performing sectors in 2021 (Financials +32% and Energy +42%) was minimal, which led to the majority of the relative underperformance to our benchmarks. The shifting narrative towards higher rates provided a big macro boost to these sectors, as Banks should benefit from an expansion in margins as rates rise, and Energy should outperform as the strong economy leads to higher commodity prices, benefiting cash flows and highlighting the significant undervaluation of the group. Secondly, our weighting in Precious Metals, discussed in previous commentaries, was hurt by the rise in rates as the year came to an end which resulted in a significant shift as a group that struggles as rates rise (although odd that investors have chosen to ignore its inflationary benefits). Although the expectation that rates will continue to rise in 2022 (to combat inflation) causing a headwind for the group, we continue to keep an allocation to the sector as the benefits of real assets will provide a good hedge as real rates should remain negative throughout 2022.

The Jemekk Total Return Fund entered Q4 with a 73% net exposure which reflected our moderately bullish stance regarding equity markets and ended the quarter slightly lower at 70%, which was more a consequence of exiting some high-quality growth stock holdings. Since before the Covid-19 pandemic we viewed high-quality growth stocks with structural competitive advantages as one of the very best places to invest. However, we recognized that the landscape for investor sentiment was changing rapidly during Q4 and thus we decided to exit Adobe, Amazon and Meta Platforms, which were longstanding core names (and names we very much will likely revisit again in the future). We exited those positions in a timely manner, which was evident from the technology sector being the top contributor to Fund returns in the quarter. The Fund continues to have steadfast belief in the particularly strong secular growth outlook for Microsoft, which was the top contributor to positive returns in Q4 but have trimmed the position given its outsized weight.

During Q4 the larger gains, other than Microsoft, included Intuit, General Motors, and Waste Connections. However, offsetting this performance was our hedge losses and a major hiccup with Boyd, one of our long-term core holdings that despite its recent near-term challenges with supply-chain issues is a stock that has one of the best long-term performance track records, and remains a core holding. As well, the emergence of Omicron resulted in an abrupt sell-off in airline stocks and our holding in Air Canada. We continue to view Air Canada as having unique advantages within the airline sector, but more importantly, we have an outlook for a strong return of air travel after the passing of the Omicron wave. As part of adjusting to the shifting narrative of the Fed (and inflation expectations) the Fund has increased its exposure to the main beneficiaries that we missed out in Q4, specifically Financials and Energy, with the proceeds from reducing our growth exposure, specifically Technology. Although we remain convinced of the alpha generating qualities of our names described above, we nonetheless are waiting until the market has absorbed the shock of higher rates on growth valuations.

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

Qualcomm Inc. (QCOM) - One of the largest semiconductor companies globally, Qualcomm is leading the charge in the 5G rollout. Qualcomm's analyst day in November proved to be a watershed moment for the company. Management provided three-year growth targets above expectations driven by growth in Android handsets and positive commentary around its adjacent platforms such as IoT (Internet of Things) and Automotive, an area we are very bullish on. The semiconductor shortage we have all read in the news is not waning and demand remains very strong and QCOM will continue to benefit from this dynamic.

During CES (Consumer Electronics Show) in the first week of January, QCOM again delivered positive news on new chips and growth verticals. Specifically, opportunities in the PC market and how the company will benefit from the heavily discussed 'Metaverse' with its AR/VR connectivity offerings. Specifically, QCOM announced partnering with Microsoft to expand its AR offering. Regarding QCOM's Auto segment, announcements with Volvo, Honda, and Renault were met with enthusiasm as QCOM sharpens its focus on this burgeoning market. News from the company also helps gain confidence it can grow its non-handset business from $5b now to $9b by 2024.

Another positive for QCOM is the Apple headwind has been largely de-risked. The two giants have sued each other over the past years claiming patent infringements and aggressive licensing behavior. We believe these issues are largely resolved and the overhang is being removed as this feud has been mostly defused.

It is rare to find a company with so many material growth drivers and a total addressable market expected to increase 7-fold over the next 10 years that has plenty of valuation support. QCOM currently trades at a 16x PE with expected EPS of $12.50 in 2024, which we believe is very beatable. Our math suggests QCOM is worth approximately $225. QCOM is a well-diversified semiconductor manufacturer and areas such as IoT and Automotive could prove to be meaningful profit centers which we believe are not fully reflected in the current share price.

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. Separately, from a relative standpoint, we did not forecast such strong performance from Energy, Real Estate, and Financials and as mentioned our underweighting was a detriment to performance. It's a new year and although just a calendar flip, we have a fresh perspective on positioning and sector allocations. This market remains heavily influenced by the Fed and macroeconomic factors. We are keenly focused on Fed messaging and continuing to find stocks with attractive risk/reward ratios. 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 as witnessed by the changes implemented as the quarter ended.

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

Gerard Ferguson: 1.416.777.4491
Rick Ummat: 1.416.777.4496
Michael Lam 1.416.597.4502