JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008

Q1 2022 Commentary

	Q1 2022	YTD 2022	Since Inception
Jemekk Total Return Fund	0.64%	0.64%	109.45%
S&P TSX Composite	3.82%	3.82%	148.93%
S&P 500	-4.60%	-4.60%	356.20%

* Benchmarks quoted in Total Returns

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The first quarter of 2022 was one of the most eventful periods in the history of investing. We started the year in the throes of the Covid-19 Omicron wave that brought back regional mobility restrictions and more cautious behavior for many people. Then, rising tensions over uncertainty about Russia's intentions on Ukraine manifested into war. We saw oil prices spike with the Russian invasion but recognized that oil, as well as many other commodities, were already on a path of high and rising prices due to the consequences of years of chronic underinvestment. Throughout the quarter the market faced headwinds of very high inflation at levels never seen before in most people's investing lifetimes. High inflation created angst regarding the outlook for monetary tightening, and indeed we saw bond yields rise at one of the fastest paces in history. The combination of war in Ukraine, inflation, surging commodity prices, rising interest rates, the looming start of quantitative tightening and inversions of the yield curve brought global recessionary concerns to the forefront. It was not surprising that the S&P 500 saw one of its worst starts to the year in its history, being down at one point 12% in January alone (Nasdaq was down 17% peak to trough in January). However, it was surprising to see the S&P 500 rebound strongly to end the quarter down a not so shocking 4.6%. The TSX had one of the best quarters compared to world indices helped by surging commodity prices, especially crude oil.

The Jemekk Total Return Fund entered and exited Q1 with 70% net exposure. However, under the hood there were MAJOR changes in the makeup of the Fund's sector exposures. The Fund significantly increased its energy exposure near the start of Q1 (low single digits to approximately 30% currently) and then adding further to the commodity space in general with larger positions in metals and fertilizers (Nutrien).

In totality throughout the quarter, the Fund went from a low-teen weight to tripling our exposure in resource stocks. To Fund this reallocation, we reduced our exposure to Technology/Growth oriented securities dramatically, beginning in December with most of the heavy lifting in January as Technology within the Fund went from an over 20% weight to a mid-single digit weight, with most of the shift occurring in mid-January. This was most evident by exiting a long-term significant contributor in Shopify (held since 2016) – leaving Microsoft as the remaining longstanding holding in the technology sector. As well, we exited some industrial names, like General Motors, which we felt faced too many upcoming headwinds. The beneficiaries of the reallocation are represented by some our largest current holdings being Franco Nevada (Gold), Peabody Energy (Coal), Advantage Energy (Gas) and Marathon Petroleum (described below).

This marked shift from growth to late cyclical/value is evidenced by the rebound in the Fund in Feb (+3.14%) and March (+3.38%) and thus far in April, even as Growth/Tech continues to suffer (Nasdaq flat to down over the period). Although we did not expect January to be as violent as it was and in hindsight should have moved quicker paring down our tech book, significant changes have been made. Although late, (the shift from growth to value began in mid 2021), we have nonetheless embraced the late cycle exposures the many Canadian sectors exhibit as described above. We were fortunate enough to be small and nimble to make the transition easily once we were convinced of the market shift in early 2022.

We are comfortable with our current commodity exposures and, despite the strong performance they have had, the economic backdrop remains conducive to the sector, valuations are still low, and we feel the group is still under-owned and have further contribution in the coming quarters.

During Q1 the top gainers were in the commodity space with Precision Drilling, Peabody Coal, Canadian Natural Resources and Tourmaline Oil leading the way. Offsetting performance were stocks in the technology and industrial sectors, but we would note that a short position in a technology stock that was a top 10 positive contributor was an important mitigating factor.

We start Q2 with a heavy weight in the energy sector, which includes exposure to coal via Arch Resources and Peabody Coal, with some added exposure to the oil downstream sector with Marathon Petroleum and Suncor as larger weights (in addition to traditional E&P's discussed above). We also recently made financials a larger weight as we see that sector greatly benefiting from higher interest rates and a still strong consumer. Further, while the macroeconomic picture is currently disadvantageous to growth stocks, we still believe great risk-reward exists in highly profitable technology companies and the Fund continues to maintain exposure to mainstays Microsoft and Google.

Following, we would like to highlight a new position in the Fund, mentioned above, Marathon Petroleum:

Marathon Petroleum (MPC) – MPC is one of the largest oil refiners in the U.S. The large U.S. refiners have had a strong multi-year track record of high profitability, high free cash flow, and substantial capital returns to shareholders.

The post pandemic outlook for North American refinery crack spreads is much more positive than the pre-pandemic now that U.S. fuels demand has returned to pre-pandemic levels. That is because U.S. refining capacity has fallen, on a permanent basis, about 5% since 2020 and that is expected to have a very significant impact on refinery crack spreads.

Russian sanctions have now further improved the margin outlook for U.S. refiners for two reasons. First, the loss of finished oil product exports from Russia to Europe will necessitate increased production from higher-cost refineries in Europe, which can drive up refinery crack spreads globally. Second, the loss of unfinished oil product imports from Russia to the U.S. will mean increased need to import finished oil products as U.S. refiners are unlikely to fully offset with more crude processing.

There is currently a global shortage of diesel. This is reflected in the fact that U.S. diesel prices are up 50% from 6 months ago vs. gasoline up only 10%. MPC is very well positioned for this dynamic as its refinery configuration is geared to producing a higher than is typical percentage of distillate relative to gasoline.

MPC is the majority owner of MPLX, which owns oil pipelines and logistics facilities. We view MPLX as an attractive business offering low-beta and a high free cash yield. And with an apparently more favorable environment for fossil fuel growth in the U.S., now that it has also become a national security issue, MPLX's profit outlook has incrementally improved.

After collecting one's thoughts on such a whirlwind period we can only conclude that being cautious is our only certain variable going forward. Our previous quarterly commentary had a favorable view of the global economic outlook, but today we see a myriad of headwinds, the two greatest of which are a credible outlook for a major slowdown in global economic growth due to both the supply and high prices of commodities and the uncertain impact of the ongoing Russian sanctions and monetary tightening. One thing that is clear, is that we have transitioned to later cycle, as evidenced by the leading groups, and embracing the shift from growth to value, although late, has been the right decision.

We thank you for your continued support and look forward to communicating with you at the end of Q2.

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