JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004

Q2 2022 Commentary

	Q2 2022	YTD 2022	Since Inception
Jemekk Long/Short Fund	-14.54%	-17.55%	194.84%
S&P TSX Composite	-13.19%	-9.87%	266.54%
S&P/TSX Small Cap Index	-20.83%	-14.17%	85.67%

* Benchmarks quoted in Total Returns

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CEO, Portfolio Manager

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Portfolio Manager

There was no reprieve in Q2 from a dreadful Q1. In fact, Q2 marked the official bear market of the S&P 500 being down over 20% in the first half and the Tech heavy Nasdaq down almost 30%. The US markets are having its worst first half since 1970 (and fourth worst on record). The TSX was a global outlier for performance for Q1 (+3.84%), however that came to screeching halt in June as Energy (the only source of performance) had one of its most volatile months since memory serves - TSX down 8.7% in June and XEG (Energy Index) down a whopping 16.5% for the month.

The talks of a possible recession only heated during the quarter. Although we will say the current Q2 estimate for GDP is -2.5% following a -1.6% in Q1. So, by definition this is a technical recession that we are in right now. The debate has only escalated but one thing we know for sure, the Fed is still on a rate hiking path. On June 15th the Fed raised by 75bps (something Chair Powell said was 'not on the table' a month prior) the biggest raise since 1994. This shows you how serious the Fed is on curbing inflation. We (and the market) estimate another 75bps in July and inching closer to the 3-3.5% range expected for year end which we feel the market can handle. On the bright side, we are seeing some material deflationary events occur - the pullback in commodities for one. Canada, just like the US, is facing the same multi-decade inflation with an oddly strong job market and is also fighting it with higher rates. Ultimately, we see a lot of strength in some pockets of the economy, and we acknowledge how serious this heightened inflationary environment is but we believe inflation has peaked and the economy is beginning to normalize.

What is different this time versus past cycles however, in our view, is that there is no Fed Put. Meaning, even in the face of market turmoil we could count on the Fed to back off on rate hikes or even cut rates to once again spur growth.

We do not see that happening in this cycle given the Fed has two mandates - 1. Control Inflation and 2. Maximum Employment and with an economy at full employment the Fed is willing to throw the economy into a recession and witness material stock market moves down in order to bring down inflation. This tells us the market will be choppy over the next couple quarters as it begins to stabilize and digest the interest rate hikes.

In Q1 we shared with you how we have re-positioned the Fund materially (drastically decreasing our Tech exposure and increasing our Commodity exposure). This was working well until June where we saw a sharp reversal of Energy stocks as highlighted above. The Long/Short Fund was no exception experiencing its worst month since the onset of Covid-19. Simply, we did not foresee the momentum in Energy stocks to break so violently. That said, we are not giving up on Energy entirely - one month does not make a trend. Although we had begun to reduce our exposure to the group, clearly we did not move fast enough and given the dramatic pullback in valuations (recessionary driven and almost entirely in June) we feel the correction has largely played out. We remain constructive on the group and still see WTI a year out around the $85-$90 level providing much valuation support to the stocks we hold. The Fund entered the quarter 73% net long and exited at 80% as we see several opportunities emerging. As for Technology, we feel the massive de-rating that has occurred since November (18x to 5x Sales) is largely behind us and stocks are showing signs of a bottom. We are now leaning more favorable on some Tech names as we believe some parts of the sector are now oversold and would expect our exposures here to grow.

To further focus on the impact energy had, and to highlight the temporary dislocation we thought it useful to highlight a specific name;

Advantage Energy (AAV) – Advantage is primarily a natural gas focused name that the Fund has owned in the past and built up a significant position in 2022.

Natural gas prices have experienced a volatile first half of the year rising more than 150% before retracing about 40% (20% in June alone). Although known for its volatility, significant moves are not uncommon, however it is important to note the price remains significantly higher than the start of the year driven by many factors, not the least of which includes the Russian war in Ukraine, increased focus on North American LNG and the energy crisis that has been building for years.

Advantage, which benefits from higher prices, also announced a material production beat and guided higher in the second quarter. Both of which will result in stronger free cash flows that will benefit shareholders through their preferred route of share buy backs which should ramp up materially in the next 18 months as debt levels drop below their stated targets and hedges roll at higher prices. In addition to their beat operationally the company continues to move forward their CCS (Carbon Capture) initiative through a partnership with Brookfield on their Entropy subsidiary, that receives little to no attention (read "value").

With the above positives, and considering the company trades at EV/EBITDA in the range of 2-2.5x, we feel comfortable with our significant position and will consider adding more should weakness persist, at the expense of our other energy names in the Fund.

Also, as per usual, we would like to highlight a new position in the Fund:

Ferroglobe (GSM) – GSM is a producer of silicon metal (SiMe) and silicon-based alloys: ferrosilicon (FeSi) and manganese-silicon (MnSi); with production facilities around the world.

SiMe has 3 primary markets with silicones (consumer and construction products) consuming about 50% of all SiMe, as an additive to aluminum die casting consuming 38% (mostly auto parts) and solar panels accounting for 12%. Silicon-based alloys are used almost exclusively in the production of steel. GSM's outlook is now enjoying several tailwinds. GSM's competitive advantage over its Chinese competitors, who are the global price setters, has undergone a positive sea-change since 2021 due to China's electricity costs going from one of the lowest in the world to rising to well above North American levels due to the exhaustion of its supply of low-cost coal.

The surge in LNG prices have further highlighted GSM's electricity cost advantage from its plants in North America, Norway, and South Africa. These tailwinds culminated into GSM posting the highest quarterly profit in its history in Q1/2022.

But there is further added excitement to the GSM story. All Li-On batteries contain SiMe in the anode, but the content is only about 3%. Increasing SiMe content is the key to the longevity of the battery charge, but its content is constrained by its low stability. GSM has been developing SiMe nanotechnology, which may be the key in increasing stability, for the past 5 years and it appears the company is on the cusp of initial commercial breakthroughs. Initial targeted products will focus on development of mobile Li-On batteries that have a very high value to weight ratio. The ramifications for the world of Li-On batteries could be immense, with EV battery life longevity enhancing the R&D "Holy Grail."

As we enter the second half of the year, we believe the next six months will fare better than the first six - why? The anatomy of a bear market is as follows: Selloff in unprofitable technology; Market de-rates; Generals get shot; Downward EPS revisions; All sectors capitulate. We feel we are in the late stages of this and maybe not at a bottom per-se but we are bottoming. Microsoft cut its outlook due to FX on June 2nd - a rare event (interestingly the stock finished green on the day). The DXY (US Dollar Index) is up 16% for the year which will hurt companies with multinational operations. As earnings season fast approaches, we believe FX will be the cause for EPS revisions, however, we believe this is transitory. As of now we argue the estimates for the S&P 500 remain elevated and over the next two quarters numbers will come down as the market resets expectations - this is a positive sign in our opinion as the stock market will bottom before the economy does.

We thank you for your continued support and look forward to communicating with you at the end of Q3. As always, please feel free to reach out to any of us below.

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