JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q3 2022 Commentary

	Q3 2022	YTD 2022	Since Inception
Jemekk Total Return Fund	-3.57%	-12.79%	81.50%
S&P TSX Composite	-1.41%	-11.14%	113.06%
S&P 500	-4.88%	-23.87%	264.06%

* Benchmarks quoted in Total Returns

Gerard Ferguson, CFA
CEO, Portfolio Manager

Rick Ummat, CFA
Portfolio Manager

The third quarter of 2022 was particularly volatile with the S&P500 falling 4.9%, the TSX falling 3.6% and global markets being hurt even more. Although material by themselves, these declines masked a significant Bear market rally that occurred during the quarter that saw the S&P gain 13.5% from mid-July to mid-August before reversing and resuming its descent into quarter-end. What drove the action in the quarter involved a number of factors, most prevalent being inflationary pressures and the corresponding tough stance the Fed has taken from a rate perspective to combat these forces. The increase in rates, which has been both swift and dramatic in a historical sense, has resulted in lower multiples and increasing fears with respect to a 2023 recession. Globally this seems to be the case with the situation in Ukraine, the disruption in energy supplies in Europe and the strengthening USD which have all had significant negative impacts on capital markets (interesting to note the impact on Bond portfolios as well). Although North America is in an envious position from an energy and currency perspective, having such strength does not create immunity to the negative impacts of inflation, higher interest rates, and falling wealth as evidence by some of the carnage YTD (2022 is the third worst 9-month start for the S&P in history). Although there is plenty of credible talk of recession coming to North America, we see reasons for hope that our economies will continue to generate positive growth in 2023. The rhetoric surrounding inflation, rates and recession will continue to dominate headlines as we progress to the end of 2022, although we see these forces waning as supply chain issues are improved and the impact of the Fed actions of the past 6 months are felt. As a result, we remain constructive about the economic activity outlook for North America and are focusing on industries that would have large global competitive advantages.

The Jemekk Total Return Fund entered the third quarter with a fairly moderate 61% net exposure. While this exposure did not move much during the quarter the Fund positioning became increasingly more cautious as the quarter wound on. This included an increase in less volatile positions and by adding additional short positions of higher beta-stocks to hedge against some of our favored longstanding growth names. Although the quarter was difficult, the Fund did generate gains in energy (predominately refiners as will be discussed below) as well as a strong bounce in Waste Connections, one of our longstanding holdings. Unfortunately, these gains were more than offset by losses in our technology holdings (which are materially less than the beginning of the year) and precious metals names that struggled with the strengthening USD. As mentioned, our overall exposures didn't change materially during the quarter and the Fund continues to employ zero leverage and has placed a premium on liquidity given the see-saw nature of the markets we find ourselves in.

One notable change during the quarter was a meaningful reduction in the Fund's Energy exposure, which has had a great start to the year, but will be battling tough YoY comparisons and a falling commodity environment. However, within energy, the Fund maintains a meaningful exposure to refiners within the group given both strong current fundamentals (crack spreads remaining far above historical levels and even rising counter-seasonally in the fall) and our continued favorable outlook into 2023 for the group. As refiners' profit from the difference between Crude prices (falling) and product prices (which remain stable to strong), they will benefit, at least from a profitability perspective, as margins are sheltered from lower oil prices. From a macro perspective, the group has benefited from a couple of factors that have become acute in recent years.

First, after the dramatic fall in oil prices in 2015 OPEC substantially curtailed sanctioning new refineries and as a result, we have seen a reduced amount of new global capacity adds in the past number of years outside of China. For the better part of two decades most new refineries built in the world outside of China were backed by OPEC nations whose motivations were to design refineries to process their specific blends of crude with little regard to the economics of the refinery business itself. This has clearly changed as capital to expand capacity in the sector has lagged materially in recent years. Secondly, the collapse of oil demand at the onset of Covid-19 resulted in massive cash burns for the refinery sector, which prompted over 3 mm barrels a day of higher-cost capacity being permanently closed. The loss of this capacity, especially the 1 mm bbls/d lost in the U.S., has been a major factor for high crack spreads in North America in 2022. It is important to note that the Russia-Ukraine war has so far had only a moderate impact on global refining cracks spreads given Europe has continued to import fuels from Russia at a pace similar as in 2021. As such we have continued to maintain a material portion of our energy exposure in refineries such as Marathon Petroleum discussed here;

Marathon Petroleum (MPC) – A well-known name, MPC is a US based refiner and was added to the portfolio in the first of half of the year. We believe Marathon is structurally poised to generate profit margins well above historical levels for the foreseeable future as it benefits from the structural changes described above. MPC has generated a decade of strong financial performance and shareholder returns even before the benefits from the structural changes in the industry begin to benefit their results. The situation in Europe, has improved product pricing and shortages have recently led to previously mothballed plants becoming reactivated to combat the coming crunch (environmental concerns notwithstanding). This will mean elevated global crack spreads (i.e. margins) given very high costs for these old, inefficient plants. MPC also benefits from much lower N.A. prices for natural gas prices (an input for both operating costs and as a feedstock), which is a major competitive advantage vs. global peers.

MPC has performed well recently, and although we have reduced our position slightly, we look forward to truly explosive earnings when Q3 and Q4 numbers are released.

Stepping back, capital markets will continue to wrestle with the key risks of Fed positioning and inflationary and recessionary fears. These concerns will dominate the near-term outlook for the markets as we enter the historically strong Q4 period. Although North American economies look increasingly uncertain in the face of rising rates, the economies thus far have shown surprising strength. The more important question perhaps is that even if a recession were to occur to what degree will the severity be and how much is currently being discounted given the material weakness witnessed in equity markets year-to-date. We believe economic and inflationary fears and Fed aggressiveness will begin to ease as supply chain issues begin to work themselves out, commodity price weakness begins to get reflected in the backwards looking CPI and the impact of the dramatic hikes are felt in the economy. Although services inflation remains more stubborn we are on high alert for possible inflection points that could point to major upturns in certain sectors (particularly those that are sensitive to higher rates).

We thank you for your continued support and look forward to communicating with you at the end of Q4. As always, please feel free to reach out to any of us below.

Gerard Ferguson: 1.416.777.4491
Rick Ummat: 1.416.777.4496
Michael Lam 1.416.597.4502