JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q4 2022 Commentary

	Q4 2022	YTD 2022	Since Inception
Jemekk Total Return Fund	3.64%	-9.61%	88.12%
S&P TSX Composite	5.96%	-5.84%	125.76%
S&P 500	7.56%	-18.11%	291.59%

* Benchmarks quoted in Total Returns

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The fourth quarter of 2022 brought some respite to market indices in an otherwise tough year for all areas of capital markets. In fact, it was one of the rare years where both bonds and stocks registered material losses, causing stress to 60/40 portfolios that a lot of investors have migrated to over the years. For the quarter, however, the US equity markets (S&P500) generated a total return of +6.0% with almost all sectors posting gains and led by Energy. However, this late year rally failed to make much of a dent in the YTD losses for markets as they finished deeply in the red (S&P500 down 18% and the TSX down 5.8%). And even the fourth quarter gains was a tale of two narratives as early quarter gains (up as much as 14%) based on the hopes of a U.S. Federal Reserve pivot on its path of interest rate increases, were dashed after the U.S. Federal reserve meeting on December 8 quashed any notions of such a pivot in the near-term sending markets significantly lower in December. The narrative of market direction being driven by the actions/words of the FED is unfortunately the current narrative/noise of the day and will persist as long as the tug-of -war between inflation and the economy continues to dominate the actions of market participants. Against this backdrop, the Jemekk Total Return Fund posted a positive Q4 (+3.6%), although trailing the market, was reflective of our conservative positioning in the fourth quarter as discussed below.

As mentioned above, the most significant event of the year (and the quarter) was inflation and the FED actions to fight it with higher rates. A rapid spike in inflation fueled by years of easy monetary policy, COVID impacts and disruptions in supply chains led prices to spike, originally for goods but followed soon thereafter by the more stubborn services inflation. Although the rapid rise in rates has suppressed most of the good's inflation, services (and more specifically non-housing related inflation) is stickier and is only now starting to show signs of relenting.

Clearly the FED was late in acting in the fight and has probably gone too far, too fast in fixing their mistake. As a result, rate-sensitive areas (think technology, growth, and cyclicals) have struggled in the new environment and these leaders have been replaced by more value-oriented areas. This can be witnessed by the strong outperformance of the broad areas of the market relative to the growth-oriented indexes like the technology heavy Nasdaq.

High inflation is clearly bad for the economy and equities in general and 2022 (particularly the first half) showed the scars of the rapid about face on rates. However, we believe we are towards the latter innings of "rising" rates and that the terminal rate is in near focus. The actions of the FED are only now (6-9 months later) taking effect and although labor markets remain tight, we see signals that suggest a pivot in 2023, which the market appears to be discounting currently. Clearly, we are still in this fight and there is some very important inflation data on deck. But recent data suggests a softening, regardless of the messaging of the FED which has yet to get things right in this cycle as evidenced by their lateness of reaction, something the market had begun to discount far in advance of the FED actions.

The Jemekk Total Return Fund entered the third quarter around our historically normal 61% net exposure but ended the quarter lower at 47% net long given the heightened risks towards the latter half of the quarter. This under-exposure is the predominant reason the Fund failed to keep pace with the extremely strong equity markets in the fourth quarter. The reduction in net exposure was highlighted by a major reduction in our Energy weighting including exiting two of our previously core holdings (Marathon Petroleum and Suncor) that produced 2 of our top 5 contributors in the quarter. We exited those names for tactical reasons given their strong performance heading into year end when refining margins tend to fall for seasonal reasons.

However, we remain very positive on the long-term fundamentals of the refining sector (as discussed in our previous commentary) and would look for attractive re-entry points against any weakness. The metals sector also provided strong performance, contributing 3 of our other top 5 gains led by Major Drilling and followed by Stelco and Franco Nevada. These gains were somewhat offset by continued weakness in Technology, which struggled in this macro environment, although these losses were mitigated by a significantly smaller weighting than we began the year at. The group has historically been an area of significant alpha for us, and we look to revisit later in the year after rates have moderated and expectations have been lowered.

As mentioned above, one sector that had a strong fourth quarter, and will be a beneficiary of a more benign rate environment is Metals, specifically Precious Metals, an area we have discussed in the past as having a healthy weight in the portfolio. Certainly, the commodity (Gold) and associated equities were negatively impacted by the magnitude of higher rates in 2022 but more recently have turned positive reflecting a weakening US dollar, lower market rates, and a belief the "pivot" will be upon us soon. Although the group has been a drag on performance these last two years, we believe we see the signs of a bottom and the beginning of a powerful rally. In addition to a weaker US dollar, the signals of ETF buying, Central Bank purchases (primarily China) and a history of outperformance during recessions, the group looks poised to move higher. As such we remain committed to the group and have moved our weights higher. To highlight a name, we have built a large position in Agnico Eagle, discussed here;

Agnico Eagle Mines – AEM, is a growth oriented global gold producer, which has been very aggressive in recent years on the consolidation front. With its roots in Canadian assets, the company has benefitted as the premier organic growth company and used the premium valuation it was accorded to become one of the more aggressive acquirors in the space with a landmark deal to buy Kirkland Lake Gold (which had previously bought Detour Gold) and is currently in the driver's seat to carve up the assets of Yamana Gold (a partner on one of their major assets). This strategy further diversifies the inherent country and project risk associated with many producers and will result in AEM becoming one of the larger global producers and a preferred name for not only specialists, but also generalists that will begin to add precious metal exposure to their portfolios.

With respect to markets as a whole, we remain cautiously optimistic. On one hand we continue to deal with the various macro headwinds that created turmoil in 2022. High inflation, higher rates and an uncertain economic outlook will continue to test the market and participants' patience. Coupled with valuations that remain at the higher end (given current earnings expectations) you can easily paint the picture for a difficult 2023. However, 9 months into the hiking cycle we have begun to see positive macro signals. In addition to bond yields that have recently began to materially move lower (and the resulting weaker dollar) we don't believe investors are focusing enough on the impact of the recent ending of Covid Zero policies in China and its' impact on global demand which has material consequences for resources (think Canada), and an increase in global growth (think earnings). However, this path is sure to be choppy and we must stand ready to adjust as data (inflation) dictates. Clearly, we are closer to the end of this rate cycle and with markets typically discounting 6 months out, we look for stability/bottoming in Q1 2023.

We thank you for your continued support and look forward to communicating with you at the end of Q1. As always, please feel free to reach out to any of us below.

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