JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q1 2023 Commentary

	March	YTD 2023	Since Inception
Jemekk Long/Short Fund	1.84%	-1.78%	200.49%
S&P TSX Composite	-0.22%	4.55%	300.37%
S&P/TSX Small Cap Index	-0.43%	4.50%	105.06%

* Benchmarks quoted in Total Returns

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North American markets started off the year with a very strong January following an unseasonably weak December. For the quarter the TSX was up 4.6% while the S&P 500 posted a 7.5% gain. To us, this seemed like an oversold bounce led by companies with weak fundamentals, as names that rallied the most were considered lower quality/non earnings stocks. From a significant standpoint in the quarter, the market witnessed its first material bank failure(s) since the Great Financial Crisis (GFC). Specifically, Silicon Valley Bank, a bank with 40 years of history, essentially went defunct within a weekend due to its mismanagement of risk capital. We would like to be clear here - this bank failure was preventable. A mini contagion effect occurred subsequently after and still to be determined is how many other regional banks will fail. Of greater importance is the failure of Credit Suisse that occurred in March as well. We hesitate drawing comparisons to the events during GFC, however, the government forced buyout of Credit Suisse from UBS is reminiscent of the shotgun weddings witnessed in 2008. We highlight these to evidence the great upheavals in the quarter and even, with all this happening, it's astounding to see the S&P 500 post a strong March, +3.7. Reflecting more of the risk perhaps, here in Canada, the TSX posted a negative 22bps, with the Long/Short Fund besting that with +1.84%. The bank failures resulted in yields compressing materially in March and the markets reacted positively - very clearly reminding us that this market continues to be 100% macro driven and reacted to the swift liquidity added by the FED via the deposit bailouts. Although the Fund lagged its respective benchmarks for the quarter, attributed to a weak February, our positioning proved fruitful against the weaker Canadian tape in March, and early into Q2. More details on this later.

I'm sure it comes as no surprise, inflation remains enemy number one. Even in the face of regional and European banks failing, central banks globally continued to hike rates. Central bankers are all-in on a hiking cycle and the fallout from bank failures didn't seem to derail this path, but it does question the degree of tightening. In mid-March, the ECB projected inflation to stay 'too high for too long' and the Fed had similar comments saying, 'inflation remains too high.', reiterating their sole focus although market rates have weakened significantly, bringing market participants to question this resolve.

During the quarter the Fed hiked twice although the second hike post-banking issues was only 25bps versus the 50bps the market had expected suggesting the regional bank fallout did weigh on the Fed's decision making. Going forward, we expect one more hike at the May meeting and a pause to assess the economic impact. The "market" is currently pricing in three cuts this year starting in July. We find this aspirational to say the least and expect a more measured approach from the Fed with perhaps no cuts this year but rather a wait and see approach. The market is discounting these cuts and we feel one should be careful what they wish for, meaning if the Fed does begin cutting rates it would be in response to very weak economic activity which would severely depress earnings. At that point, recession becomes the number one focus and risk, regardless of Fed response.

Canada has been amongst the most aggressive on rate hikes of the G7 – who knew the BoC would be regarded as world leaders on monetary policy decisions? The surprise 100bps hike from Macklem last year is the exact medicine the market needed at the time- painful, but appropriate.

In January of this year the BoC hiked one more time, as expected, and communicated a pause on hikes as they wait for the result of their actions in the upcoming economic data points which may signal a weakening economy. Inflation is coming down and there are signs of stress on corporations and individuals, which should further reduce inflationary levels and most importantly growth expectations are falling - exactly what the BoC wants to see. We believe the Canadian economy will track close to the Bank's expectations suggesting the January hike was the last hike of this cycle, however, we are in the 'watch what they do, not say' camp and do not believe more rate hikes are going to occur in Canada- nor should they down south.

The Fund entered the quarter 71% net long, and as of writing, have reduced this slightly to 61% - but there was notable movement within sectors and overall positioning of the Fund.

From a sector perspective Industrials went from 0% to over 8%, supportive of our bullish view of some parts of the economy. Our gross exposure went up from 103% to 114% and our Index short book went from 4% to 21%, reflective of our cautious views on the current market. The main contributors of performance for the quarter came from a breadth of sectors such as Health Care (Quipt Medical), Gold (Alamos and Kinross), and Cyclicals (Algoma Steel). The detractors were primarily from single name Technology stocks - one (a short) found us on the wrong side of a squeeze and another where we think the stock was overly punished on a quarterly earnings announcement. Of specific interest, the Fund maintains a large weighting in Gold, as we have for the past couple years, and even added to it in Q1. Although discussed before, perhaps this differentiator deserves more explanation given precious metals are now our largest allocation.

As we have highlighted before, there are many factors underpinning our exposure to Precious Metals, of which we will briefly highlight a few here. First, the intended effects of the actions of the Fed are to reduce economic activity in an effort to fight inflation. With the recent bailout of depositors, the massive increase in liquidity as a result of bailing out depositors, is hurting that effort and can result in weak growth with persistently high inflation – a stagflationary environment that has always favored Gold. Secondly, a growing belief in a weaking dollar, either as a result of its decreasing role as a global reserve currency, or as a result of the US ballooning deficit/debt policy, also has major positive implications for Gold. And thirdly, and this is definitely not an exhaustive list, increasing institutional, ETF and Central Bank buying (think China) is starting to show a reversal of the significant sales of recent years. In fact, these groups are showing material positive flows for the first time in years. To take advantage of this trend, the Fund has built big positions in Bullion (through ETF's) and in select producers/developers like Alamos, GDXJ, Osisko Mining and a new name, Endeavour.

Although we don't envision increasing exposure to the group in the near term (given the run we have seen, and currently the largest sector exposure in the Fund) we do expect the group to be amongst the bigger winners of 2023. Yes, another head fake is a possible risk, and as such we have been very active via options to reduce the impact this possibility will have on performance.

Stepping aside from Gold for the moment, below we would like to highlight a new, small cap, position in the Fund as an example of other opportunities we see in the current dislocated markets:

Sylogist Inc. (SYZ) – is a leading provider of software solutions for public sector organizations, specializing in finance, human resources, and operations. The company has a proven track record of delivering innovative and customized solutions that improve operational efficiency for its users.

We have been familiar with the SYZ story for several years but monitored it from the sidelines due to its management team. This changed in Q4/20 when Bill Wood, a decorated tech executive with a 25+ year career in SaaS, became CEO and began his right sizing plan. Since then, he has cut the dividend to free up cash to invest in the company and has made key C-Suite hires to further strengthen its bench. The proof is in the numbers with all KPIs moving in the right direction (ARR growth, backlog, logo count, and net retention to name a few).

We like the risk/reward ratio of Sylogist. This is not the Sylogist from the past - this company is focused on improving its current offerings; top line growth; expanding its partner ecosystem; strategic M&A; and closing the valuation gap with its peers. SYZ trades at 7x '24 EBITDA versus competitors at 12-20x and has a clean balance sheet with a 10% FCF yield.

Sylogist is already in the Rule of 40 club, and we see both revenues and margins further increasing. The company continues to execute, and we believe the street is not properly valuing the company and a re-rating is a big part of this story. It would not surprise us to see SYZ up ~50% in 12-18 months from now.

This was an eventful quarter to say the least - bank failures were not on our bingo card this year. The market continues to wrestle with whether or not we see a recession and what kind of landing is in store for us. The preceding is up for debate-but what is not in question is that recent economic data points have begun to lean negative for economic growth (and inflation) for the first time since the Fed began tightening. For example, March macro data has not been as upbeat with both ISM Manufacturing and Services levels missing estimates. Against a weakening cyclical backdrop and tighter bank lending requirements, the Fed's monetary policy decisions seem to be working. We feel the market is binary with how it views the Fed's rate decision. Meaning, even during a pause - the market will still be contracting. Above, we stated the market is still 100% macro driven. The spotlight will come off rates and onto growth soon - or more accurately said, the lack thereof. As such the Fund remains skewed towards more liquid situations, with materially more downside protection, as evidenced by March, than it entered the year with.

We thank you for your continued support and look forward to communicating with you at the end of Q2. As always, please feel free to reach out to any of us below.

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