JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q1 2023 Commentary

	March	YTD 2023	Since Inception
Jemekk Total Return Fund	2.66%	0.93%	89.87%
S&P TSX Composite	-0.22%	4.55%	136.05%
S&P 500	3.67%	7.50%	320.95%

* Benchmarks quoted in Total Returns

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The first quarter of 2023 will be most remembered for the shocking collapse of Silicon Valley Bank, which conjured up fears and consternation stemming from the last banking crisis in 2008. But there were other unexpected events including the harder to explain surge in unprofitable technology stocks early in the quarter that caught us by surprise (and hurt us on the short side). That said, following the collapse of Silicon Valley Bank and then the resulting and ongoing concerns for the U.S. regional banking sector several market moves became more consistent with historical norms. First, gold prices surged confirming its longstanding feature as asset investors covet in times when financial and/or monetary stability is in question. Second, interest rates (market rates) fell on both the concern about the financial stability of banks and the impact from more cautious bank lending behavior that could slow economic activity. The events surrounding heightened banking concerns have been acknowledged as having a similar impact to an increase in rates, though the magnitude is difficult to ascertain. So, while the shock of this recent banking crisis initially sent market indices lower, largely erasing quarter-to-date gains at that time, market indices quickly recovered due to the positive impact that lower interest rates (and increased FED liquidity) had on multiples. The S&P 500 ended +7.5% for the quarter while the S&P/TSX was +4.5%. Within the market though the action was bifurcated. Economically sensitive stocks performed poorly on increased concerns about an economic slowdown, if not an outright recession, while growth-oriented and gold stocks generated strong gains in the quarter.

Going forward, one of the biggest uncertainties will be the direction of interest rates, especially the upcoming actions of the Fed Funds rate settings and their effects on the economy (read recession).

The Jemekk Total Return was positioned conservatively, perhaps too much so, to start the year with a net long position of 48% and has reduced this level further as we exited the quarter as material macro risks grew. The Fund's longstanding positive view and positioning in the gold sector helped generate strong gains in that area and remain a significant weight. Also, Microsoft, a core long-term holding, provided gains as mega-cap technology stocks had a strong rally in the quarter. The Fund also timely positioned into Canadian bank stocks as they dipped post the Silicon Valley Bank collapse. However, the pullback in cyclicals, especially in the energy sector, and conservative positioning led to the Jemekk Total Return Fund's first quarter performance to trail the market, although picking up as the quarter ended and into Q2.

As we have highlighted before, there are numerous factors underpinning our exposure to Precious Metals. First, the intended effects of the actions of the Fed are to reduce economic activity in an effort to fight inflation. The recent bailout of depositors, which created a significant increase in liquidity, risks hurting the Fed's efforts and can result in weak growth and persistently high inflation – a stagflationary environment that has always favored Gold (and commodities and other real assets).

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 negative liquidations 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 Senior producers like Agnico, Kinross and longtime favorite Franco-Nevada.

Although we don't envision increasing exposure to this defensive group in the near term (given the run we have seen, and current largest exposures 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 a pullback will have on performance.

Switching gears, below is a discussion on a new name added in the first quarter of 2023, non-resource, that we believe has multiple tailwinds that provide comfort in a still uncertain macroeconomic environment: **MGM Resorts International (MGM).**

MGM is one of the largest casino operators in the world. While MGM's focus is predominately on the U.S., being the biggest player in Las Vegas as well as having a large presence in regional gaming, the company is also the majority-owner in MGM China that is expected to contribute approximately 20%-25% of overall corporate EBITDA in 2024.

Few industries have benefited more from the post-Covid era than the travel and leisure sector. And we believe casinos are best positioned for strong profitability given their advantage over hotels by offering a complete entertainment venue and its advantage over airlines given their constraints on labor availability and capacity at airports. Nevada set a gaming revenue record in 2022 and casino operators reported record profits. And 2023 is poised to be even better given expectations for increased convention events and attendance as well as the inaugural F1 race that may prove to generate the highest room rates on record and during what would normally be a low season period (Nov 16-19). China ended Covid Zero only since November 26, 2022, and Macau profitability has already well exceeded expectations year-to-date.

MGM's strong profitability and free cash flow, even when MGM China was not contributing positively to results, allowed the company to buyback $4.7 billion in stock (as compared to MGM's current market cap of $16 billion) since 2021. MGM recently announced a new $2 billion buyback and with the outlook for MGM China looking very bright now we should expect further buyback announcements in the not-too-distant future.

While we remain generally positive about the economic outlook (weaker, but not negative growth), recent events in the banking sector have given us more reason to be cautious. Also, with market indices returning to more elevated valuation levels the risk-reward parameters have certainly become more challenging. As a result, the Jemekk Total Return Fund continues to be conservatively positioned (41% Net Long currently) and we are increasingly focused on stock ideas in unique situations, while trying to minimize market risk via a healthy, and growing, short book. This positioning proved fruitful in March and has benefited the Fund in the early stages of Q2.

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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