JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q2 2023 Commentary

	Q2/23	YTD	Since Inception
Jemekk Total Return Fund	-1.36%	-0.44%	87.29%
S&P TSX Composite	1.10%	5.70%	138.63%
S&P 500	8.74%	16.89%	357.75%

* Benchmarks quoted in Total Returns

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The extremely strong start to the year for capital markets continued in Q2 with the S&P 500 up +8.7% (16.9% YTD) led primarily by growth (think technology) while at home the TSX lagged our neighbors but still posted a positive quarter +1.1% (5.7% YTD). It has been widely reported however that the headline returns are misleading (particularly in the U.S.), given the lack of breadth, with the majority of gains contributed by a narrow group of stocks (7 predominately), that had either an Artificial Intelligence angle (NVDA +190%, MSFT +42%) and/or are recovering tech names that were beaten up coming into this year (META +140%, TSLA +112%). The impressive gains by these names masked much of the underlying weakness across the other 400+ names that make up the S&P 500 who, as a group, were mostly flat to start the year.

The Jemekk Total Return Fund entered the quarter fairly conservatively positioned (41% net long), similar to Q1, as we remained cautious regarding equity markets given the backdrop of ever-increasing Fed rates, stubborn inflation and deteriorating earnings. Although the first two concerns (rates and inflation) remain significant, the latter (earnings revisions) appeared to have bottomed in Q1 and the risks of an earnings collapse have not played out. The markets remained resilient throughout the quarter (and even shook off the banking concerns) causing FOMO to grow and dragging investors back into the equity markets. As the quarter wore on exposures for the Fund also began to increase (currently at 48%), not by chasing the well documented leaders, but rather by focusing on the unloved remainder of the market whose valuations continued to remain attractive even as fundamentals improved (more on these later). Although slightly more exposed (net-long) we remain significantly underexposed as rising risks, in the form of a potential recession and possible weakness at the consumer level have grown. In fact, many indicators are flashing red, such as housing weakness, inverted yield curves, slowing investment, and a weakening consumer (bank balances have been drained back to pre-pandemic levels). Although early, these risks are only set to rise as the impact of the historic FED rate hikes continue to take effect. As such, we remain cautious and are searching out more ideas from the short side while remaining extremely liquid.

Other than being underinvested in the quarter, the other component of the Fund that acted as a drag was our positioning, predominately in precious metals and technology. With respect to precious metals, we laid out our bull case in our previous commentary, however the hawkishness displayed by the FED in the quarter (mostly in response to a surprisingly resilient jobs market) overshadowed our thesis in the short-term resulting in a fairly poor quarter for the group (and our names Franco, Wheaton, and Kinross). Although we have reduced our weightings to the group, we look towards the end of Q3, and growing concern regarding economic weakness, to lead the FED to moderate rate hikes and provide a boost to the group.

On the technology side, although we have historically had strong returns from the group, and have been long term holders of Microsoft, which performed more than admirably, the Fund did not have exposure to either the other 6 "leaders" (described above) nor the speculative, earnings absent concept stocks that truly produced eye popping returns in the first half of the year (look no further than our former short holding ARKK (+42%) that we covered halfway through Q1 this year). Although we lament not having exposure to some of the former group (NVDA, META, AAPL, etc.) we do not regret avoiding the speculative stories like Coinbase and Tesla, as the volatility and risk is no longer priced into their valuations.

We think it's worth expanding on the narrow breadth of the "7 names" that contributed the majority of all gains in the first half of the year and why we still remain exposed to one of them, even given the move it has had to start the year – Microsoft.

Microsoft Corp. (MSFT) - A core holding for years, Microsoft will be a key beneficiary of Artificial Intelligence. We acknowledge the hype around AI ever since ChatGPT was launched in November, but we strongly believe AI is here to stay and MSFT will monetize AI long before other companies.

Microsoft hosted its Build conference in May and the key takeaway from it is AI will be embedded across the full suite of Microsoft's portfolio. The mechanism the company is using for this is dubbed 'Copilot' and will act as a real time assistant when working in almost any of their applications. This is what sets MSFT apart from other companies simply using the term 'AI' to sound relevant - MSFT's ubiquitous software used globally by billions of people acts as its install base very few other companies have. This will help strengthen its share in markets it currently dominates (Microsoft 365 - office suite with 400mm paid subs), increasing usage on its higher growth areas (Azure, LinkedIn, and Dynamics), and targeting Google's stronghold on Search. Google's market share in Search is >90% whereas Bing is ~3%. Microsoft has stated that every 1% gain in share equates to $2b in incremental revenue.

We view AI as much more than the next leg of growth for Microsoft. The company has developed an entire AI ecosystem and embedded its technology in all its software solutions. Given the size of its install base (MS Office >1.2b and Windows > 1.4b users) and the breakneck speed MSFT is moving to develop and rollout its offering - we believe the company has first move advantage and will be the first company to materially benefit from the AI revolution.

In summary, we wanted to use this as an opportunity to explain our cautiousness regarding markets in the near term. Mainly rising recession fears and the stubbornly hawkish FED, in the face of inflation that has fallen significantly over the past year (+9.1% to +3.0% currently). The market pivoted in the quarter from expecting 2 rates CUTS in 2023 to further hikes even in the face of data that suggests economic cooling is on the horizon. Surprisingly, the market rallied as this narrative changed, from easing to further tightening, exactly the opposite of what we would expect. As such, we expect to remain cautious from a positioning standpoint (using options and a more active short book) until economic clarity improves and tightening conditions subside. In the meantime, we continue to hunt out good ideas and won't resist adding new names even in the face of these risks.

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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