JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q3 2023 Commentary

	Q3/23	YTD	Since Inception
Jemekk Total Return Fund	-1.55%	-1.99%	84.38%
S&P TSX Composite	-2.20%	3.38%	133.38%
S&P 500	-3.27%	13.07%	342.76%

** Benchmarks quoted in Total Returns*

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Most, if not all global capital markets retreated in the third quarter as evidenced by the -3.3% pullback in the US equity markets (S&P 500), -2.2% returns in our domestic equity markets (S&P/TSX), and an historic pull back in bond markets (akin to the GFC pullback in equities of 2008). Most of the narrative, as we will get into below, was macro focused, specifically the Fed's attempts to rein in inflation (re: weaken the job market) through higher rates. Against this backdrop, the Jemekk Total Return Fund, while outperforming in a down market, unfortunately still posted a negative quarter (-1.55%), as the narrative of "higher for longer" had a late impact on the Fund's holdings as the rhetoric picked up pace in September.

First, let's start with the macro, specifically the impact of higher rates on capital markets. The US Fed has been consistent, since late 2021, in its efforts to fight inflation via higher rates, and indeed continued the historic pace of hiking in Q3. However, they have added the additional narrative of holding rates, "higher for longer", as we get closer to the "pause" phase of the cycle. Most market participants believe Q4 will mark a peak in rates, as the economy begins to cool, and pressure on prices begins to ebb. As such, markets, particularly in growth areas, had begun to show real signs of strength as the narrative of falling rates leading to higher multiples took hold. The abrupt turn in September towards higher for longer suggested the expected easing has been pushed out and that inflation was viewed as taking hold longer term, suggesting a much more protracted period of restrictive policy.

Couple that with traditional seasonal weakness, markets retreated materially in September and created much investor angst. However, our views remain unchanged from earlier in the year. The lagged impact of the tightening cycle has yet to take hold on labor markets and the economy, and the aggressiveness of the Fed risks long term harm, and that they will be pushed to lower rates in 2024 (previously believed Q4 2023) in response to a tighter consumer, as a result of higher interest costs on mortgages, student loans, credit cards etc., or the onset of the long awaited recession.

How has this impacted the Fund positioning? As a reminder, we exited Q2 in a fairly neutral position (48% net long), with no leverage. Although that was slightly higher than where we exited Q1 (40%), we felt comfortable that we were close to the end of Fed tightening, earnings had remained resilient, and the economy appeared headed for a soft landing (amidst falling inflation). The narrative that grew (higher for longer), in the face of stronger than expected economic data, caused us to reduce exposures in Q3, bottoming at less than 20% long, favoring 5%+ returns from T-bills as an alternative to wait out the last stage of higher rates. As we exited the seasonally weak September, we have begun to increase exposures again as the Fed seems to have shifted allowing their efforts to date to take their lagged effect on the economy and inflation. Against this backdrop, we think markets can stabilize and shift focus towards 2024 earnings (moderate growth), which supports our move back towards a more neutral stance (currently 40% net long again).

From a Fund standpoint, winners in the quarter came from Energy (TOU, CNQ), Financials (EQB) and consumer-oriented areas (MGM, AZO). Energy was one of the only positive sectors in the quarter, in response to higher commodity prices, and remains a core focus for the Fund. Prices have continued to strengthen post quarter, and although we are hesitant to increase our weighting to the group, we remain committed to our names and will add on pullbacks as the risk premium in the commodity (Russia/Middle East) begins to wane. With respect to the other winners, we did reduce our exposure to EQB, primarily a mortgage lender, although have begun to add to financial services as a whole in anticipation of a fourth quarter rally, and reasonable valuations. Against these names, negative contributions from our Precious Metals exposures (hurt on the higher for long narrative), and Consumer Discretionary (ATZ, ULTA) detracted from Fund performance in the quarter. Although we did reduce our exposure to the consumer, we however remain committed to an above average weight (15%) to Precious Metals (primarily Royalty Co's), based on many of the reasons outlined in previous quarterlies, but further explained here.

Although we have regularly updated clients on the rationale for the investment stance, it is probably worthwhile to note that this thesis has struggled against the current backdrop of the Fed and their quest to quell inflation through higher rates. Given our above-mentioned expectations for a peak in rates soon, we believe this overhang will soon be removed. Granted, rates have moved farther, and quicker than we expected – but we believe the fundamentals supporting a strong move have only improved. Central banks remain committed to increasing their holdings (even though retail investors continue to liquidate at a heightened pace), the fiscal situation in the US continues to worsen and political risks continue to ratchet up (unfortunately). These and many other reasons continue to support our belief, and as such we remain overweight gold, primarily through FNV, WPM and KGC.

When looking back at 2023, clearly we were too defensive at the outset of the year, and our exposures to Technology (underweight) and Precious Metals (overweight) impacted first half performance. Although we have begun to see a levelling of these impacts on performance in Q3, we see the shift towards the ignored/underinvested sectors as just beginning. Although the 7 - well documented names - that account for all the performance in the US indexes continue to outperform, the case for putting capital to work in the lagging sectors, such as Financials, Energy, and the previously mentioned precious metals sectors continue to grow. That is not to say we don't have exposure to those winners, as long-term holding MSFT and frequently owned META represent large positions for the Fund, we just see better opportunities in the unfamiliar, unpopular areas of the market. As we put that capital to work, maintaining a strong cash position generating 5%+ types of returns, is a nice short term, conservative alternative, as the macro shifts to the next phase of the cycle.

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.

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