

JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q4 2023 Commentary

	Q4/23	YTD	Since Inception
Jemekk Total Return Fund	2.07%	0.04%	88.20%
S&P TSX Composite	8.10%	11.75%	152.29%
S&P 500	11.69%	26.29%	394.53%

* Benchmarks quoted in Total Returns



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After a shaky start in October, global capital markets rallied strongly in Q4 as rates began to decline sharply after the brisk increases experienced in the previous quarters as investors viewed the Fed's job of fighting inflation as nearing completion. As a reminder, the Fed had hiked rates by greater than 500 bps to fight the largest spike in prices witnessed since the 1970's, effectively ending decades of lowering rates (and rising equity multiples). The effect(s) of this shock to the system in the first half of 2023 roiled markets and created substantial risk with respect to jobs, the economy, and balance sheets (both corporate and personal). The crescendo of higher rates culminated in October, with a sharp equity selloff, preceding the strong rally witnessed in November and December. This rally, which represented all the gains for the TSX for the year, is based on the belief that the Fed was/is ready to pivot to rate cuts in 2024, as their job fighting inflation is largely done and focus will now turn towards orchestrating the soft landing. The combined belief of a moderate to strong economy and the pivot back to falling rates (and expanding multiples) has led to an exuberant rally to end the quarter for all equity markets (S&P/TSX +8.1%, S&P 500 +11.69%). Against this, the Total Return Fund (+2.1% for the quarter), was clearly too defensive, after protecting capital in the weak October period, we didn't pivot fast enough to embrace the enthusiasm associated with the markets belief that set up the powerful end of year rally. As of writing the Fund has increased exposures, but risks remain, and as such we remain fairly neutrally positioned and will expound more on that below.

So, what happened in the quarter? First let's start with the Macro, which has dominated markets and commentaries for too long. As mentioned above, investors have embraced the narrative that rates have peaked and 2024 will be accompanied by 4-6 cuts, continuing the cycle/path that fueled equity markets before the inflationary environment following the pandemic. We also agree that inflation is firmly moving towards the Fed's 2% goal, and that

the impact on the economy has thus far been muted, a sort of goldilocks scenario, as witnessed by the resilient jobs picture. However, we remain concerned that the effects on the consumer, and on businesses as whole, have yet to be fully felt. Yes, the employment picture remains strong, but it is largely being driven by gains in hospitality (think service workers) and health care. Absent these areas, the picture for jobs, and the economy is not as rosy, particularly as much of the rate hikes have yet to show up in the data. This has led to our conservatism, wrongly thus far, but a risk (a weakening economy) that cannot be ignored. Although we have increased exposure (Total Return now 60% net Long, up substantially from less than 40% in October), we remain uber focused on the economic data that will drive the Fed and are ready to react as the narrative changes from the unabashed bullishness witnessed as we ended 2023.

The increased long exposure in the Fund has come mostly from reductions in cash (no longer yielding an attractive 5%) and reductions in Index shorts, as put positions against the broader markets expired and have not been hurriedly replaced – yet. Most of the sector positioning remains relatively the same, and from a size perspective, skewed towards the higher end of the capitalization spectrum, where risk tends to be lower, in addition to providing substantial liquidity as we expect markets to be choppy in the first half of the year. Within the quarter, the largest contributors came from Technology (MSFT/META), Precious Metals (AEM/WPM/K) and a long-term stalwart in the Fund, Boyd Group, which has begun to take out new highs again, shaking off the inflationary effects it experienced in its business model post COVID. Offsetting these gains was weakness across Energy (WCP/BTE/TOU) and a name specific issue with long-term holding Franco-Nevada. With respect to Energy, we maintain about the same exposure, but are moving back up capitalization towards larger names like CNQ, until we see commodity pricing find a floor. With respect to Franco, negatively impacted by the closure of First Quantum's mine in Panama (not a name), we had reduced our exposure, but clearly

not enough. At the time of writing, we feel most, if not all of the value within FNV represented by this mine's royalty, has been wiped out, and perhaps now represents only upside to the equity value. We will get a clearer picture of how this situation will play out in the second quarter/half of the year.

In addition, we have added several new names to the Fund, and describe the investment and our thought process further here;

Boralex (BLX) – An independent, alternative energy producer, Boralex has been owned by the Fund, and discussed previously, but not for several years (pre-COVID). Exposed to several important renewable energy sources, Boralex is particularly skewed towards Wind Power (80%), an area of the market that has experienced significant inflation and volatility in the past couple years. These issues have been exasperated by the leverage these business models have inherent in their business plans. As rates rose in 2023, this group was particularly hard hit. Known as a “growth” company, Boralex was hit harder than most, as the economics of their pipeline of new projects became less likely and have now been largely priced out of the stock. What remains is a company that is still growing in excess of its peers, trading at a discount to the group (sub 11x EBITDA), with a strong balance sheet and an option on growth, as rates normalize over the coming years. Although we have just added the name, we look to increase our weighting on any weakness, as markets wrestle with the “will they or won't they” actions of the Fed in 2024.

Alimentation Couche-Tard (ATD) - With a global presence in the convenience store sector, ATD operates under the Couche-Tard, Circle K, and Ingo banners. Couche has over 14,000 stores in 25 countries serving 8.5mm customers daily selling 35mm gallons of fuel per day. Couche is second only to 7-Eleven on store count. ATD is a serial compounder led by an experienced management team with ambitious growth plans. Why do we like it?

Defensive Business - during recessions, GFC, and COVID, Couche remained resilient throughout navigating choppy waters with effective cost control. In the economic expansion phase ATD performs well in their Merchandise and Service business along with Fuel Margins. When the economy is slow or slowing down (much like North America now), Couche can rein in its opex line to protect margins.

Track Record - with over 40 years of operational excellence, Couche's track record of unit growth and unit economics is arguably second to none. During their Investor Day in October management

is targeting (excluding new acquisitions) EBITDA of US\$8.9b by FY28 implying organic growth of 7% CAGR. We believe these levels are beatable given M&A is part of the ATD playbook and plenty of levers to pull for upside such as: better than forecasted fuel margins driven by market share gains and leveraging Couche's scale advantages. Also, the loyalty program presents a strong growth vector with high margins we feel the street is underestimating. So, we see a double tailwind occurring → ATD beating their own forecasts and the street having to up their numbers in response.

Strong Balance Sheet - Couche posting over \$2.5b in FCF will help fund the NCIB in place, increase the dividend, and M&A. Current Net Debt/EBITDA is 1.9x with balance sheet capacity of \$10b. Not only do we see ample room for accretive acquisitions, but the deals can also be debt financed avoiding equity dilution.

We are always searching for quality compounders (long term holders of Boyd Group and Waste Connections) and definitely not early on ATD here, but we feel there is a lot left in the tank. We don't think the street is giving Couche enough credit for international expansion along with the effort the company is putting into the quality of food at their stores. This will result in repeat traffic with loyalty rewards further driving this recurrence. Couche does come with risks - tobacco sales in secular decline, the long term effect of EVs, and sensitivity to fuel costs. But we think this management team deserves credit for its sterling execution so far.

As we enter 2024, we take confidence in the fact that most, if not all, of the hawkish actions of the Fed are behind us. This is what has fueled our increasing long exposure (and risk), which although still fairly neutral, is significantly higher than the bearish posture we adopted as Q3 came to a close. The powerful Nov/Dec move in markets has led us to a pause in adding risk (exposure) as we await further economic data that supports the aggressive pace and timing of rate cuts the market is currently pricing in. In the meantime, we continue to look for new names to add, while remaining on the lookout for shorts/pairs as the exuberance of investors continue to take markets higher. Against this cautiously optimistic outlook the ability to remain nimble, exposed to largely liquid situations, allows the Fund to adjust quickly as conditions change.

As always, we thank you for your continued support and look forward to communicating with you at the end of Q1. Please feel free to reach out to either of us below with questions/comments.

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