JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q1 2024 Commentary

	Q1/24	YTD	Since Inception
Jemekk Long/Short Fund	12.65%	12.65%	233.42%
S&P TSX Composite	6.62%	6.62%	356.27%
S&P/TSX Small Cap Index	7.92%	7.92%	121.92%

** Benchmarks quoted in Total Returns*

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The first quarter marked a continuation of the sharp rally that began in November last year. Specifically, all major North American indices posted strong gains for the quarter: Dow Jones, 5.6%; S&P 500, 10.2%; and Nasdaq, 8.50%. This performance adds to the double-digit performance from each index in Q4/23. Why is the market going up? The Fed confirmed the rate hiking cycle is done and the next move is a cut. What is interesting to us is how the market is responding to otherwise negative news. Meaning, the market has gone from pricing in six cuts coming into the year to now three and the 10-year yield has gone up by 32bps year to date suggesting the macro narrative is losing its grip on the direction of the market. Another reason for the rally is recession fears continue to subside and so far, growth is trending well. We are keenly focused on the latter as this confirms fundamentals are taking center stage.

Real Estate was the only negative sector for the S&P 500 and Communication Services fared the best. A popular bear thesis of this market is the concentration in performance of the 'Magnificent 7.' This came to an end with Tesla, one of the vaunted 'Mag 7' being the worst performer in the S&P 500. Further to this, three of the Mag 7 constituents have underperformed the S&P 500 for the quarter (Google, Apple, and Tesla). Google has since rallied but the Mag 7 looks more like the 'Fab 5.' This is a positive for the bull market thesis because the concentration in performance is alleviating and Q1 saw a broadening out of the rally - a great sign for a healthy market.

In Canada, the TSX was up 6.6% and the TSX Small Cap posted a 7.9% quarter. Health Care and Energy led the TSX while Utilities and Communication Services were negative contributors. The TSX Small Cap was almost a carbon copy of the TSX with respect to sector performance except Utilities finished positive for the quarter.

We would be remiss if we did not mention the Long/Short Fund was long Celestica and Hammond Power, each being the best performer in the TSX and TSX Small Cap respectively. Following a moderate Q4, the Jemekk Long/Short Fund posted strong gains, outperforming every major North American Index.

During the quarter the Bank of Canada had two rate decisions resulting in no change to rates. The good news is the war on inflation is working. The CPI readings for each month in the quarter came in below expectations showing weak consumption is starting to impact discretionary spending at home. With CPI now trending sub 3% (but still above the 2% target) the BoC is now entertaining rate cuts, but GDP is above the Bank's expectations leaving them in a tough spot. We believe a June cut makes sense if CPI does not tick up and labor conditions do not remain tight.

It is a similar situation to what is occurring in the U.S. Specifically, the Fed has seen two quarters where core PCE prices ran at an annualized 2% pace. This allows the Fed to consider easing even though the economy is running hotter than expected. We mentioned above, but worth stating again, the market has shifted from six rate cuts this year to now three or less, yet equity markets continue to perform very well. This is traditionally not the dynamic that should play out, but we feel the market is now focused on a strong economy (re: soft landing) resulting in strong earnings supportive of the market rally. Fed speak continues to be 'data dependent' and threading the needle between not cutting too early or too late. We believe the Fed is not willing to entertain a recession to kill inflation and will standby ready to cut if economic data signals material signs of a slowdown. Ultimately, we believe both Canada and the US can engineer the elusive 'Soft Landing' but maybe in Canada's case more of a *Softish* Landing. This truly is the goldilocks scenario and a key reason for the strength in the markets. We are keeping a watchful eye on this relationship.

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Despite a strong quarter the Fund reduced exposure nominally from 88% to 84%. No material changes to sectors except an increase in our Industrial and Technology weights offset by a small increase in our short positions. We maintain a large gold exposure and even though it cost us performance in January and February there has been a strong rally in the group in the latter part of March. With the commodity breaking out to all-time highs in almost every currency and the miners lagging we believe a catch up trade will materialize. A couple of names in Basic Materials were the detractors for the quarter and Boralex as well but we are sticking with our call here and feel some of the Utilities were overly punished in the quarter. On the flip side, we had winners from various sectors: Industrials (Hammond Power, this position is now up over 250% and we have trimmed our position to stay prudent), and MDA Space (a relatively new position), Technology (Celestica, Firan Technology, and Haivision), Financials (Trisura Group). We stated last quarter we identified several small cap companies with puzzling valuations and felt there was a groundswell emerging for this group. Despite the strong run some of these stocks have had we remain bullish and continue to source new names.

As per usual, below we would like to highlight a position in the Fund:

Haivision (HAI) – A leader in real-time video streaming, Haivision is a little-known company powering Fortune 500 companies. We have followed HAI since its IPO in December 2020 but after a failed opportunistic takeover attempt from a competitor (Evertz) last year, we began doing a deeper dive after Evertz dropped its bid. For a brief period, HAI was being sold by risk arbitrage players and others only owning it for a successful transaction. This was our opportunity to accumulate shares while the stock was artificially depressed.

Clients such as Apple and NASA depend on Haivision for mission critical content delivery. The video infrastructure market is expected to grow at a 16% CAGR over the next decade. After a few complimentary acquisitions, HAI is now a leading fully integrated video provider in position to capture and increase its market share. Haivison has three targeted segments: Enterprise, Media & Entertainment, and Defense (these relationships are highly coveted and the prime motive behind Evertz's bid). The global market is over $23b and HAI had revenues of $140mm in 2023 suggesting the massive opportunity ripe for the company.

Haivision is an award winning (four Emmy's!) globally recognized company founded and led by a visionary CEO. The stock is up 45% in Q1 so naturally we expect some consolidation but with continued margin improvement and trading at 4.5x forward EBITDA, we are content staying long as we still see meaningful upside in the stock. We are also comfortable knowing we are aligned with management as they and the board own 30% of the stock.

To summarize, there were no rate cuts from the BoC or the Fed in Q1. We believe this will change by the time we report on Q2 results in July. If the data continues to trend as it has a June cut makes sense. Valuation wise we are more constructive on Canadian markets than the US. If Canada can avoid a recession, we believe the banks could do well adding strength to the TSX given its large weightings in the index. Overall, we do not feel the markets are extended. There are pockets of froth but nothing like the late 90s the media has cited as an analogy. The AI movement is real and with that you will have winners (companies that have a positive ROI on AI spend) and losers (companies chasing the hype). Also, the IPO market is showing signs of life again. The two IPOs during the quarter: Astera Labs (AI Semiconductor company) and Reddit (Internet Chat Forum) both had strong debuts granted it is still early days for these issuers. As interest rates begin to move down later this year, this should open the window for more capital market activity - back to normalcy. The market has shifted to focusing on growth (think earnings) over interest rates. And while we acknowledge a pullback is healthy in the short term for markets, we remain constructive overall given the economy stays on track.

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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