JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q1 2024 Commentary

	Q1/24	YTD	Since Inception
Jemekk Total Return Fund	7.80%	7.80%	102.88%
S&P TSX Composite	6.62%	6.62%	169.00%
S&P 500	10.56%	10.56%	446.73%

** Benchmarks quoted in Total Returns*

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After a very strong rally in Q4 2023 from their lows, most global equity markets continued their strong run, driven by economic growth (suggesting strong earnings), a Fed that is signaling a move towards an easing cycle, and inflation nearing the 2% target. Further, a broadening of the equity markets, from the much discussed 'Magnificent 7' group of names to almost every other sector, signals a healthier market from the previous concentrated contributions of a narrow group of names. Specifically, in Q1, the S&P 500 (+10.2%), the tech heavy Nasdaq (+8.5%) and even the TSX (+6.6%) all showed strong gains. Given this backdrop we are encouraged the Jemekk Total Return Fund posted a strong (+7.8%) quarter to begin the year after a fairly pedestrian end of 2024. We expect the positive backdrop for equities (discussed below) to continue into Q2 and the rest of 2024, which has led us to maintain our exposures (75% net long) towards the longer end of our historical range.

Macro factors, which have dominated markets and commentaries for far too long, continued to be front and center in the quarter. Inflation continues to move towards the Fed's 2% target (albeit slowing now), as services have begun to follow goods inflation downwards as the multitude of Fed rate hikes takes hold. The narrative of Q4 for markets was that the Fed was primed for up to 7 rate cuts as the economy slowed in 2024. The surprise of Q1 is that the economy, specifically jobs, have stubbornly remained strong which has led the market to discount closer to 3 cuts now, which in a normal world should have led to market weakness as rate cuts are typically positive for overall markets.

However, the economy continues to run hotter than the Fed would have expected/wanted and that has led to a delay in the implementation of the easing cycle and yet the market has continued to move higher via a healthy broadening of the names/sectors that have contributed. This has strengthened our belief that we are in a type of 'goldilocks' scenario that should continue as long as inflation continues its path towards normalcy and the jobs market remains strong. As such, the Fund continues to source new names, albeit maintaining an appropriate amount of short exposure, until the narrative of strong economic growth and a Fed leaning towards a rate-cutting cycle continues. Below, we provide an example of a new name added to the Fund;

Builders FirstSource (BLDR) - The largest supplier of structural building products in the US, Builders FirstSource is a market leader in a fragmented industry. The company has set itself apart from its peers by focusing on innovation through investing in value-added solutions to remove customer friction points (i.e. labor shortages and jobsite productivity) along with investing in technology such as Digital Tools to drive efficiency gains.

Why do we like it?

- **Housing Play -** we are bullish on housing this year in the face of a rate cut cycle. BLDR is in the perfect position to capitalize on housing starts. Single family new build is 67% of revenues, multi-family is 13%, and 20% is repair and remodel. The company estimates since 2010, the industry has underbuilt normalized demand by ~2.6mm homes. Existing home inventory is at historical lows which drives buyers to new builds.

- **Margin Expansion -** management expects normalized gross margins of 30-33% vs. the average of 26% achieved from 2016-2020. The upside comes from the Value-added products (800-1000 bps margin premium), industry dynamics, and productivity gains. Value-added products account for more than 50% of revenues (sub 40% in 2022) shifting the business to more of a service-based company than a commodity business. This is what makes BLDR unique, which should lead to continued growth via share gains and M&A.
- **Capital Allocation -** we study a lot of companies and use capital allocation decisions as a gauge of management priorities. BLDR is run with discipline and has above average ROIC, ROE, and FCF conversion. Leverage is only 1x with a 7% FCF yield. Cash goes to accretive M&A, which management has a solid track record of, and share buybacks. The company has reduced its share count by 40% since Q1/21 - unlike traditional acquisitive companies.

The stock has been a great performer and despite the run we remain bullish on the story as the real tailwinds for the company begin when interest rates start getting cut. Valuation is not commanding in our opinion. The stock is trading at 15x PE, which is below the market and a four-turn discount to peers and as stated above has a solid margin profile with the likelihood of further expansion.

From a sector standpoint the Fund remains broadly diversified, with no single group representing greater than 25% of invested capital. Recent moves in commodities (specifically oil and gold) have resulted in strong moves in the quarter, and we have slightly sold down names in an effort to reduce volatility. Specifically, energy has remained in the high single digit range as names (specifically CNQ) have been called away via written options. Similarly for the gold group, however we maintain higher exposure here (closer to 20% for reasons detailed in many previous commentaries) but have replaced some direct exposure with options on names like Kinross, Agnico Eagle, and Franco. Outside of resources, the Fund maintains strong exposure to the Consumer (17%), Financials (15%) and Industrials (12%).

To be clear, as we continue with the balance of 2024, we take confidence in the fact that most, if not all, of the hawkish actions of the Fed are behind us – something they have clearly signalled. This is what has fueled our increased long exposure (and risk), which has grown in the past 6 months from neutral towards the higher end of what we are comfortable with. We remain cognizant of the risks that remain, the biggest of which continues to be inflation and the Fed's reaction towards its impact on the overall health of the consumer/economy in the U.S. We are encouraged by the market's reaction to the new narrative of 3 cuts, later in 2024, from the 7 originally expected, as the focus has now turned towards earnings and fundamentals rather than needing the lifeline the Fed typically provides via an easing environment. The Fund remains very liquid, employing little leverage and continues to closely monitor the macro environment for clues of any changes to what is clearly a good backdrop for equities for the time being.

As always, we thank you for your continued support and look forward to communicating with you at the end of Q2. Please feel free to reach out to either of us below with questions/comments.

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