JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q2 2024 Commentary

	Q2/24	YTD	Since Inception
Jemekk Long/Short Fund	1.93%	14.82%	239.86%
S&P TSX Composite	-0.53%	6.05%	353.83%
S&P/TSX Small Cap Index	0.85%	8.83%	123.80%

** Benchmarks quoted in Total Returns*

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The second quarter delivered a mixed picture of performance between U.S. and Canadian indices. Specifically, all major U.S. indices (except for the Dow) continued where Q1 left off posting strong gains for the quarter: Dow Jones, -1.7%; S&P 500, 3.9%; and Nasdaq, 8.3%. However, back home in Canada, we saw more of a benign performance for the quarter: TSX, -0.5% and TSX Small Cap, 0.9%. No clear culprit for the relative underperformance for Canadian markets but we can speculate a combination of the lack of Technology, specifically AI companies soaking up fund flows, and the newly introduced Capital Gains Inclusion tax which was both introduced (April 16th) and implemented (June 25th) within the quarter, resulted in abnormal selling. The tax changes are a one-time event, however the lack of growth/tech in Canada and overweight cyclical/resources is more of a structural, ongoing issue.

As mentioned, Technology and Communications were the leading sectors in the S&P 500 for the quarter, however Utilities were quite strong too (even in the absence of expected rate cuts). The 'Magnificent 7' continued to march on with a pronounced move from Apple hitting all-time highs. On a year to date basis the only down sector for the S&P 500 is Real Estate, perhaps the hardest hit by the increased rate environment over the past 2 years. Overall, the S&P 500 is showing signs of strength in almost every sector although market pundits would have you believe gains are only coming from a handful of names, a view we believe is misleading in an effort to explain why so many managers are lagging the index. Specifically, we believe the majority of the gains are coming from the 'Mag 7' but there are respectable pockets of performance from other sectors/themes too, although the vacuum of news continues to center around Technology, specifically, Nvidia. We are not going to dismiss the lack of breadth by any means, but history has shown us trying to call 'tops' on this narrow leadership is an exercise in futility and we await, patiently, the great rotation.

As mentioned above, in Canada we experienced more of a flattish quarter. Materials and Consumer Staples led performance for the TSX for the quarter, offset by weakness in Health Care, Real Estate, and Technology. This was similar across the broader index, and within the small cap universe as well. The valuation disconnect that has emerged between the U.S. (growth/Tech) and Canadian markets (Financials/Resources) is continuing to widen which we use as an opportunity to source new (out of favor) names for the Fund. The Jemekk Long/Short Fund had a positive quarter and outperformed the TSX and TSX Small Cap for the quarter and year to date.

Twenty-seven months since the first rate hike and 11 months since the last hike, the Bank of Canada finally cut rates by 25bps in June. In the past few months weakness in the Canadian economy has heightened (Productivity and Unemployment Rate) and <u>we are calling for three more cuts this year alone,</u> as the BoC may have waited too long to support the domestic economy. In the June statement policy makers said that they have increased confidence inflation is coming back down to target levels and that the breadth of inflationary pressures were 'near their historic average.' Since this statement the Unemployment Rate for June was one tick worse than estimated coming in at 6.4% - the highest rate since January 2022. With population growth on the rise and job openings falling, we are fighting a double headwind for the economy necessitating bold action from our Central Bankers.

South of the border, the Fed has yet to move (cut) using the strong jobs data as one reason to hold. This too is starting to break and we have now faced successive months of economic data that, albeit strong, is now consistently coming in below expectations. As such we feel the Fed *should* move in July, but a September rate cut seems more likely. The combination of vacancies and an unemployment rate rising to 4.1% are indications the stubbornly tight labor market has begun to ease.

The latest Non-Farm Payroll data was softer than expected with the previous two extremely strong jobs numbers revised down materially, suggesting the Fed was using bad data to influence their stance. The weaker labor market, combined with significant progress on inflation should be enough for the Fed to finally move on rate cuts as we exit Q3. This should provide a favorable backdrop for further equity strength.

Given how the data has played out, less inflationary, yet still strong, your Fund's net long remained towards the higher end (81% net long) although down slightly (from 84%) as we exited the quarter. There has been little change in strategy/exposures within the Fund other than an increase in Industrials and adding Index Shorts to dampen volatility. Winners within the Fund came from a mix of sectors including Basic Materials (Kinross and GDXJ), Industrials (Zedcor), and Technology (Celestica, Sylogist, and one short on a Canadian tech stock). The detractors include a cannabis stock we are building a position in, given a myriad of catalysts we see, and Hammond Power, which we believe got caught in the new Capital Gains rules and suffered a drawdown in anticipation of insiders selling that never materialized. We remain committed to this name and expect it to rebound accordingly. Another name is Boyd Group which we feel compelled to defend here. We have owned BYD since 2012 and our total return on the name is 2,244%. The stock has been hit this year for a couple reasons – milder/hospitable weather conditions, but more importantly a near term hit on margins as the company is investing more in greenfield vs. brownfield operations as building out their own locations, rather than acquiring Centers, yields higher ROIC metrics. We applaud management for making this longer term decision and we feel investors are short-sighted by selling off the stock. In the coming quarters we see BYD getting back to a normal run rate and see both fundamentals improving and multiple expansion opportunities.

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

Firan Technology (FTG) – A trusted manufacturer of aerospace and defense hardware, Firan Technology serves its 200 global customers from their Canadian, U.S., and Chinese production sites. Specifically, FTG specializes in the manufacturing of circuit boards used in control panels and cockpits. We have been involved in FTG previously, but last year it again hit our radars given its attractive valuation and lack of credit it has received from two recent acquisitions (IMI & Holaday). Both were attractively priced and offered material upside from operational efficiencies that have since been realized.

Firan has been a strong performer year to date, but we feel the underlying business remains sound and valuation is still reasonable (6x '25 EBITDA). FTG has a history of reducing costs and improving efficiencies, exhibiting strong operating leverage. The company has a great track record of M&A and has a balance sheet that lends itself to additional capacity (only $7mm in net debt). We acknowledge the cyclicality of the business and the risk of serving customers such as Boeing and Airbus. However, with a backlog of $100mm (Sales in FY25 estimated at $158mm) we see a de-risked compelling opportunity with good revenue visibility, benefiting from increased defense spending - a secular growth theme - along with further M&A optionality.

We are pleased the Fund has gotten off to a good start - year to date. However, as we look to the second half, we see signs of more volatility emerging. Specifically, valuation in U.S. markets remain elevated and are at risk as we enter Q4 and the U.S. election which looks to be a political quagmire. Throw in the indecisiveness of the Fed with respect to rate cuts, we remain predominantly in liquid situations and are ready to adjust exposures accordingly.

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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