JEMEKK HEDGE FUND

Inception date: August 1999
Q3 2024 Commentary

	Q3/24	YTD	Since Inception
Jemekk Hedge Fund	2.47%	13.02%	623.55%
S&P TSX Composite	10.54%	17.24%	555.56%
S&P 500 Composite	5.89%	22.08%	593.44%

**Benchmarks quoted in Total Returns*

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Global capital markets produced very strong Q3 2024 returns, powered by positive economic growth, continued improvement in the fight against inflation and most importantly the introduction of the long-awaited Fed pivot to lowering interest rates (-50bps in September). In his commentary, Powell highlighted the lower path of prices in the US, the moderate impact on jobs thus far and the growing optimism for negotiating a "soft landing", painting an excellent backdrop for equities. Although experiencing a worrisome "hiccup" in early September, pre the Fed actions, capital markets responded quite positively to the changing narrative as the S&P (+5.9%) and the TSX (+10.5%) both posted great quarters. What is notable was the stronger performance out of Canada, predominately due to its later cycle exposures, which could be a harbinger of things to come. In conjunction with this strong environment the Jemekk Hedge Fund produced a +2.5% return (+13% for the year), which continued the positive run, but underperformed the TSX mostly due to hedging, and lower exposures (60-70% Net Long through the quarter) relative to the "fully invested" index. As we enter Q4, the Fund maintains a slightly longer, yet still conservative 78% Net Long position, no leverage, is well diversified and positioned in larger, liquid positions as we expect a seasonally good Q4 (as is typical) yet maintain concerns about weaker economic growth (and thus earnings) against the backdrop of an elevated market in the US (22x multiple), in contrast to relative inexpensiveness in Canada.

A close inspection of the contributors to the strong quarter in Canada (+10.5%), really drives home the impact of the Fed shift towards lower rates. The TSX was led predominately by interest sensitive sectors (Real Estate, Financials and Utilities) as these laggards received a jolt as capital shifted to the new paradigm, out of economically sensitive groups (Energy, Industrials, and Consumer Discretionary) which lagged.

Our, and the markets focus now, turns to the ability to navigate the above mentioned "soft landing", something that cannot be understated. Historically after Fed cuts (typically in response to weakening economic conditions), markets (S&P) are stronger 1mo (+2.5%), 6mo (+6.5%) and 12mos (3.5%) later suggesting an all clear for increased risk. However, these numbers mask the difference in environments in which recessions are averted. For instance, when Fed cuts are followed by a recession, equity markets are down on average 21%, 12 months later. In contrast, in the periods where economic growth continues, markets are typically up 8%, a noticeably different outcome. As such our attention is acutely focused on the state of the US economy and specifically the jobs market, which to date remains quite resilient. In short, we are in a market where "Good News" (for the economy) is "Good News" for the equity markets, and thus far things remain "Good". If that relationship changes, given the elevated multiple for the market, we would pivot to a more conservative position quickly.

Specific to the Jemekk Hedge Fund makeup, it remains largely unchanged from Q2. Net, Gross, and Sector exposures remain remarkably close to how we entered the quarter (and year). As mentioned in previous commentaries, we had anticipated an earlier move from the Fed, and hence we had pre-positioned well in advance (in retrospect, too early). Winners in the quarter came from several groups including Precious Metals (KGC, NEM and AEM), Financials (EFN, BBUC, and NA) and Technology (BLDR, a newer name to the Fund this year, a play on a recovery in US housing). On the flip side, in addition to the negative contribution from index hedging (index shorts on the TSX and S&P were two of our largest negative contributors) Fund loses were also broadly based, and we believe temporary, and as such remain important positions in the Fund (BYD, CNQ, and ELF).

As per usual, here we discuss a couple of larger names, Element Fleet Management & Uber:

Element Fleet Management (EFN) – Element provides vehicle leasing and management services to companies to reduce the fixed cost burden facing many companies that require a large number of vehicles to conduct business. It operates primarily in North American, but also has operations in Australia and New Zealand.

- Element has historically grown above trend both organically and via acquisitions as evidenced recently by its purchase of Autofleet, a digital and analytics business that enhances the customer experience and should enable further organic wins.
- This above average growth has thus far shown resilient and could be further enhanced in an economic slowdown as companies who operate fleets conserve capital by increasing usage of fleet financing providers.
- Company trades at a fair, if not elevated multiple, and needs to continue to experience earnings beats and growth, both of which the last quarter, and previous periods have exhibited.

We added the name to the Fund over a year ago and have continued to add to our position. Although valuation concerns are warranted, we feel they will continue to beat or exceed expectations and thus grow into their premium value.

Uber Technologies (UBER) - Uber is the dominant player in ride-hailing service and food delivery and we see several ways of winning by owning it.

Growth Trends - Uber is targeting a 14-19% Bookings CAGR over the next three years, which we think is beatable as they broaden out its portfolio across new targeted markets and new geographies. We are impressed with how Uber has been adding new verticals while concurrently enhancing its core offerings.

Capital Return - Uber is far from its money losing days. Uber is now buying back stock, and we expect them to ramp up going forward (estimates are for $7b in next few years). Uber is on a path to hit over $10b in Free Cash Flow in 2026.

Ad Strategy - Similar to Amazon, Uber has decided to roll out ads across its platform. We believe this is a smart decision and will result in a ~$1b run-rate and growing as Uber leans in on scaling. Ad revenue has an 80%+ gross margin, and we believe the current valuation is not factoring in the longer term trend of the Ad business.

Addressing the 800 pound gorilla in the room -- Tesla entering the Robotaxi market. Uber has become a battleground stock as of late with valid arguments from both the Uber bulls and bears on who will win/lose in Autonomous Vehicles. Ultimately, Tesla has made it no secret they are developing their own network to accomplish universal robotaxi/self driving transportation. This is clearly a threat to Uber's core business. We are mindful of the risks to Uber and would never discount what Elon is capable of but for now our analysis suggests Uber is in the driver's seat and not getting run over here. Uber announced a hallmark deal with Waymo recently to partner on the robotaxi market and history tells us Telsa will need several years if not a decade along with over $100b in investments to make this work. Another way we look at it is from a valuation standpoint. Robotaxi valuation does not play a big part in Uber's current valuation whereas robotaxi estimates are a material component of Tesla's current valuation meaning a lot has to go right for Tesla to make the valuation work.

We have long discussed our desire for the day when capital markets returned to focussing on Fundamentals (earnings, growth, etc.) and away from the intense Macro focus (inflation, interest rates, etc.) as that would reward those that displayed skills at identifying companies that can produce above average returns (stock-picking, imagine that). We think the long-awaited shift in the Fed posture on interest rates (Q3/24) marks that point. However, that does not herald in an environment of unabashed enthusiasm (as witnessed by our still fairly conservative positioning). Risks still remain. Global tensions (Middle East, Ukraine/Russia), the upcoming US election and the ultimate ability to avoid a recession in the US are near term focusses and represent real risks. We are pleased with how the markets (and Fund) have dealt with these concerns thus far, but we expect increased volatility (risk) going forward and thus remain in a position where we can adjust quickly to the extreme changes we have become accustomed to experiencing. In the meantime, we continue to identify good opportunities (both Long and Short) across different areas of the market and hope to continue what has been, to date, a good year.

As always, we thank you for your continued support and look forward to communicating with you at the end of Q4, as 2025 begins. Please feel free to reach out to either of us below with questions/comments.

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