JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q3 2024 Commentary

	Q3/24	YTD	Since Inception
Jemekk Long/Short Fund	8.89%	25.04%	270.08%
S&P TSX Composite	10.54%	17.24%	401.69%
S&P/TSX Small Cap Index	8.44%	18.02%	142.68%

** Benchmarks quoted in Total Returns*

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Every major North American index posted a strong third quarter further adding to year to date gains. We cannot recall the last time we said the Nasdaq was the relative underperformer across US indices but for Q3: Dow Jones, 8.7%; S&P 500, 5.9%; and Nasdaq, 2.8%. Canadian markets outperformed our US counterparts in Q3: TSX, 10.5% and TSX Small Cap, 8.4%.

Technology went from the best performing sector in Q2 to the second worst. Energy was the weakest and the only sector in the S&P 500 with a negative Q3 performance. The third quarter was led by interest rate sensitive sectors such as Utilities and Real Estate as these securities began pricing in interest rate cuts. There was a lot of carnage in the Technology sector primarily from the Semi's: Lam Research, Intel, and Super Micro Computer all had material drawdowns. The much talked about narrow breadth in the market led by the 'Mag 7' also reversed course in the quarter with mixed performance from the incumbents.

Every sector in the TSX was positive for the quarter, also led by interest rate sensitive groups: Real Estate, Financials, and Utilities. Similar to the S&P 500, Energy was the weakest sector in the TSX. The TSX Small Cap index had a similar pattern with Energy being a laggard and interest sensitive sectors leading. Although not keeping pace with the red hot TSX but edging out the TSX Small Cap, the Jemekk Long/Short Fund performed in between these two indices for the quarter however still outperforming on a year to date basis.

The Bank of Canada is firmly in the rate easing cycle that began in Q2. This quarter the fragile Canadian economy welcomed two more 25 basis point rate cuts and data is supportive of a 50 basis point cut.

Market participants can argue on the magnitude of the next cut, but our house view is we see a minimum of a 25 basis point cut in each of the next two meetings this year as; Inflation continues to ease with the BoC's expectations and secondarily, the BoC is trying to stimulate growth to absorb excess slack in the economy. During the quarter the unemployment rate continued to increase and is now closing in on 7% - this alone is supportive of a larger rate cut. Furthering this was the August inflation print which hit the 2% target for the first time since 2021. To us, this signals mission accomplished and the BoC should be cutting more aggressively to prevent a material overshoot on potentially going too far.

On the US side, it was an eventful quarter to say the least. From an assassination attempt on Trump, the Yen carry trade unwinding causing a sharp short term sell off in US markets (early Sept.), and the Fed cutting interest rates by a higher than expected 50bps. We have now begun the cutting cycle, and the market is now laser focused on jobs data to interpret a soft landing, or not, in the US. We have mentioned several times in our commentaries that the Fed could successfully engineer a soft landing, a goldilocks scenario for equity markets, and we believe starting with a 50bp cut was the right decision as it telegraphs the Fed wants to stay ahead of the curve. Ultimately, the economy is healthy and Powell shifts to 'recalibration' citing inflation risks have decreased, however the risk to labor markets are now squarely in focus. There are two more Fed meetings this year and we expect a 25bp cut in each meeting.

From a Fund perspective, the Net long exposure increased during the quarter, from 81% to 93%, specifically across Basic Materials, Energy, Financials, and Industrial names. We took the opportunity to add to our index shorts due to cheaper volatility available in the

quarter, although given the strength, have ultimately been a drag on the Fund. Winners came from a mix of sectors including Precious Metals (Kinross and Alamos), Industrials (Zedcor and Hammond Power (a nice bounce back after the previous quarter)) and Technology (Haivision and Sylogist). The detractors were from Financials, Industrials, and the above mentioned short on Index ETFs. The combination of our very bullish call on Gold and sizing it accordingly along with being early on several catalyst rich small-cap names have led to our outperformance year to date. However, we continue to manage for potential downside events to limit any drawdowns and minimize volatility.

Following, we would like to highlight a position in the Fund:

Terravest (TVK) – Focused on acquiring and operating industrial businesses, Terravest runs four units: HVAC & Containment Equipment, Compressed Gas Equipment, Processing Equipment, and Service. We view TVK's business model as a proven quality free cash flow compounder with a history of deploying cash into accretive M&A opportunities while managing revenue and costs through raw material procurement optimization.

Our investment thesis is predicated on TVK's long runway of M&A growth potential coupled with its proven track record of acquiring businesses. And to support this M&A the company has a strong balance sheet (1.2x leverage) and $550mm in dry powder willing to go up to 3x leverage. Over the last decade management has bought 21 companies at an average trailing EV/EBITDA multiple of 5.5x, which has dropped to 4x from steel purchasing relationships, product pricing enhancements, and economies of scale. What is noteworthy is these improvements are part of the playbook and cannot be easily mimicked, creating high barriers to entry.

We are mindful that investors begin to price in acquisitions with companies such as TVK and management may feel the need to do a deal to appease investors. This is not the case with TVK as its high caliber team has a long history of patience when deploying capital - they are playing the long game. This is still a risk along with valuation edging higher (10x EBITDA with multiple expansion playing a big part of that) however the organic revenue and margin growth last quarter demonstrated how well run this business is.

We look forward to more operating leverage unfolding, however we do acknowledge the majority of TVK's business is in mature sectors. For now, we give management credit for continuing their M&A recipe and operational enhancements but if we see more competition enter and higher multiples being paid, we will be forced to reassess our thesis.

As we look at the remaining months left on the calendar, we are far from being complacent. The balance of the year has many, potentially volatile events outstanding namely, the US election, global tensions in the Middle East and concerningly, the level of equity valuations. The concern of overstretched valuations is a real one as we are hovering at all time highs (22x S&P P/E multiple is at the higher end) however we see earnings as robust and do not forsee a recession putting those at risk. However, a more plausible negative event could be a near term correction in AI related stocks, as many names have followed NVDA higher on hype. The AI pixie dust can only go so far until investors begin demanding a positive return on these investments. This is a material near term risk in our opinion. We remain focused on these macro and fundamental risks and believe the Fund is positioned appropriately but being as nimble as we are we can be quick with adjustments if need be.

Lastly, and more of bookkeeping item, is pre-planning for 2024 tax season. Given the year to date activity, and limited flow through of capital gains the past couple years, we would caution unitholders to expect higher than normal capital gains to be flown though on your T-5013's in March 2025. This is related to realizing gains on names this year, but also impacted by the change in the capital gains inclusion rate in Canada in June 2024, as we sought to realize gains in advance of this date. Although we have a further 3 months in this tax year, and things can change, we thought a little early heads up would be useful for tax planning reasons.

We thank you for your continued support and look forward to communicating with you at the end of Q4. As always, please feel free to reach out to any of us below.

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