JEMEKK HEDGE FUND

Inception date: August 1999
Q4 2024 Commentary

	Q4/24	YTD	Since Inception
Jemekk Hedge Fund	1.29%	14.48%	632.86%
S&P TSX Composite	3.76%	21.65%	580.24%
S&P 500 Composite	2.41%	25.02%	610.15%

**Benchmarks quoted in Total Returns*

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A positive fourth quarter completed a second consecutive strong year for equity markets globally. Specifically in the US, S&P 500 (+25%) and Nasdaq (+29%) both posted extremely strong years, primarily led by growth (read – technology), although the strength was across the board. At home, in Canada, the TSX lagged (+21.7%) but still put in one of its best years, following a good 2023. The strength in Canada was also led by Technology (+37.7%) and Financials (+25.1%) but was also aided by more cyclical sectors Materials (+19.3%) and Energy (18.2%). In fact, the only sector that posted a red year was Communications (-27%), which was bogged down by ongoing issues with BCE and Rogers. The historically more conservative Jemekk Hedge Fund lagged these extremely strong moves by the above-mentioned indexes (+14.5%) primarily related to its hedged nature and short positions, described further below.

The fourth quarter of 2024 really exhibited the volatility we have begun to get accustomed to, and the expectations (or missing thereof), that are imbedded in the markets. Entering the quarter, as the Fed cut rates for the first time in four years, the TSX moved higher (+0.85%) as anticipation of the election and further rate cuts sunk in. November (+6.4%) was extremely strong as the market reacted to the Trump victory and immediately priced in a replay of his last Presidency and the benefits of his pro-growth yet inflationary policies. December brought a further Fed cut (-25bps) but this was interpreted as hawkish, resulting in an immediate pullback (TSX -3.6% and S&P 500 -2.4%) as the playbook for 2025 changed (fewer, and slower rate cuts). The violence of the pullback, from a strong month pre the meeting, essentially gave back all the gains, post the election, as investors began to grapple with the stubbornness of inflation and the accommodation of the Fed against that backdrop.

The Jemekk Hedge Fund, hedged against some of these powerful moves, posted +1%, +2.9%, and -2.6% in Oct, Nov, and Dec respectively, essentially resulting in a positive quarter (+1.3%), but lagged the benchmarks.

The main events in the quarter - as mentioned - were the US election, and the activity of the Fed (i.e. interest rates). With respect to the US election, the resounding Trump victory signaled to investors a more conducive government with respect to economic activity (removing growth barriers), more spending, but also a focus on efficiency and reduction of government waste. All music to the ears of investors as witnessed by the strong - immediate - reaction as Consumer Discretionary and Technology led the rally. However, as mentioned this was all tempered by the change in perceived aggressiveness of the Fed for 2025 (from 4 expected cuts, to 2 currently) which highlighted the fragility of the markets coming off two excellent years and led to a drag by the more interest rate sensitive groups, Utilities and Real Estate. Through the piece, although we had expected a Trump victory, the Jemekk Hedge Fund kept exposures fairly unchanged at 70% net long (vs. Q3 at 75%) and leverage relatively immaterial.

Specifically, within the Fund, like the market as a whole, contributions came from across the board. From the Consumer sectors (AMZN, described below, and AC), Basic Materials (primarily Golds, GMIN, and FNV) and for the first time in a while Energy (TOU) showcased the breadth of the contributions within the quarter, and the importance of diversification. Financials also contributed, with our small allocation to Banks and core position in FFH getting caught up in the Q4 rally. From a negative perspective, the majority came from our short book (both index and individual shorts) in addition to a couple one-off long positions that we expect to recover – BLDR and BLX. Clearly, our neutral to underweight positioning cost the Fund performance within the quarter, however the strong market pull back, post the Fed meeting in December, although felt, was sheltered by this cautious view/positioning.

As per usual, here we discuss one of our more recent additions to the Fund - Amazon:

Amazon (AMZN) - A well-known name for the Fund made a return post its Q2 sell off on what we believed was overdone. The stock was down 15% on market shortsightedness and we decided to buy it back at $170. The stock has since recovered and broke out to new all-time highs. We are holding onto the stock and the following outlines why we think Amazon continues to perform:

- Growth Trends - AWS growth continues to accelerate and benefits from cloud workload migrations and will further be fueled by GenAI contribution. We do not believe AMZN gets enough credit for its AI investments. AI (AI/ML & GenAI) is at a multi-billion dollar run rate with a material opportunity on a go forward basis and Amazon is leaning into GenAI by offering a full stack approach from silicon to application layer.

- Fundamentals - Following a 'weak' Q2, AMZN posted a strong Q3 with Operating Income taking center stage. OI handily beat street expectations followed by strong Q4 guidance silencing the bears on margin compression. We see OI and FCF inflection continuing to deliver as digital ads takes share, retail leverage kicks in, and AWS (AI led) accelerates.

- Diversified Business Model - AMZN is the most diversified mega-cap technology stock and is investing in businesses with long tail growth opportunities. For example, AMZN is developing its own AI chips (Trainium 2 and Inferentia) to reduce its reliance on Nvidia and improve performance for AWS.

Amazon is firing on all cylinders with its key verticals all performing well - eCommerce, AWS, and Advertising. We acknowledge AMZN capex is running hot and expect the company to spend more in 2025 than 2024, however we know management is focused on margins and will not lose control over spending. Despite being the cloud and retail winner and a share taker in digital ads, AMZN is trading below its historical EBIT average by 7 turns resulting in an unwarranted valuation gap.

The strong returns of 2024, although the playbook wasn't as necessarily as expected, is now behind us, and we have turned our attention to 2025 and looked again at our names, sectors, and weights, as it pertains to our expectations of events in the next calendar year. First, many of the driving forces of previous years remain the same. Inflation, although significantly reduced, remains just above the Fed's target which will result in a slower pace of cuts, something the market has adjusted to already. Although this will be data dependent, all signs point towards 2 cuts in 2025, which is constructive for capital markets, although will remain a little more restrictive than expected. More importantly though, especially from a volatility perspective, is the policies/backdrop of the incoming Trump government. Although filled with lots of bluster and rhetoric, we expect the new government to be constructive as a whole for equity markets. We expect the pro-growth backdrop of increased spending and lower taxes to be mitigated somewhat by trade protectionism (re: tariffs) and a worsening fiscal situation, which could ultimately prove inflationary. Further, in Canada, we are now facing an election of our own, most likely in Q2. Trudeau's resignation is expected to lead to a change in government and we see mostly upside as the policies of the Liberals have clearly not been positive for the Canadian economy, and any changes to taxes, regulation and global standpoint of a new, perhaps Conservative regime, should mostly benefit corporate Canada. More on this in our next commentary.

As it stands now, the Fund remains within our historical, yet conservative range of exposures. We expect the early part of the year to be volatile/challenging with changes in governments both south of the border and closer at home. The Fund remains well diversified across sectors (with no sector representing more than 17% of the Fund) and by names (the largest remaining unchanged as WCN, META, AEM, and MSFT – all represent 4.7-5.5% positions). The liquidity of our underlying names remains excellent, and we continue to look for new opportunities both from the long and short sides.

As always, we thank you for your continued support and look forward to communicating with you at the end of Q1. Please feel free to reach out to either of us below with questions/comments.

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