# JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q4 2024 Commentary

| | Q4/24 | YTD | Since Inception |
|---|---|---|---|
| Jemekk Long/Short Fund | 4.35% | 30.47% | 286.18% |
| S&P TSX Composite | 3.76% | 21.65% | 420.57% |
| S&P/TSX Small Cap Index | 0.69% | 18.83% | 144.36% |

** Benchmarks quoted in Total Returns*

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December came in as a lion but left like a lamb. Even with most indexes posting negative returns, in what seasonally should be a strong month, every major North American index posted a positive fourth quarter adding to an already strong year. Performance in Q4 for US indices as follows: Dow Jones, 0.9%; S&P 500, 2.4%; and Nasdaq, 6.4%. Canadian markets were also in the green, although Small Caps lagged in Q4: TSX, 3.8% and TSX Small Cap, 0.7%.

Consumer Discretionary led the S&P 500 in Q4 while Materials was a notable detractor. The pop in interest rate sensitive sectors, such as Utilities and Real Estate, in Q3 reversed in Q4 as the market priced in less rate cuts than expected compounded by a hawkish Fed in the December meeting. Ultimately, the Fed cut 100bps in 2024, a far cry from the 175bps expected at the start of the year. For the year, the annual return profile for the S&P 500 was almost a carbon copy of 2023. The SPX was up 25% in 2024 vs. 26% in 2023 while the best performing sectors were the same - Communication Services and Technology. The only sector in the red for 2024 was Materials (-4bps).

The same trend with interest rate sensitive stocks reversing in Q4 was felt at home as well. Technology, Energy, and Financials all posted strong gains in the quarter. The same phenomenon held within the TSX Small Cap Index as well. For the year, the TSX was led by Technology, Financials, and Energy with only Communication Services in the red (-21%), as the telcos had a dismal year. For the TSX Small Cap Index the top sectors were Financials, Materials, and Consumer Staples while only one sector was in the red, Utilities. We are pleased with how the Jemekk Long/Short Fund fared in Q4 beating its respective benchmarks but more so how the Fund outperformed for the year.

There were two Bank of Canada rate decisions in the quarter, and both resulted in 50 basis point cuts. We wrote in our last commentary that the data was supportive of a jumbo cut and the BoC acted decisively to lower interest rates in an effort to stimulate economic growth. After the December announcement the BoC cited weaker than expected growth in the second half of the year along with the rise in unemployment (CDN Unemployment Rate at 6.8%). These factors were enough for another 50bps cut, however the Bank signaled it is done with the outsized cuts and will move back to a normal cadence. Although growth in the back of the year is trailing forecasts, the BoC highlighted the lag effect when cutting rates and there will be a catch up in growth as lower rates begin to trickle down into the economy. Our view is the BoC is not done with rate cuts but will take a more measured stance and Trump signaling tariffs warrants an updated view. For the year, the BoC cut rates 1.75% resulting in inflation going back to manageable levels however growth remains below potential, and the jobless rate is spiking. Adding on the threat of looming tariffs leaves the BoC short of waving a victory flag.

South of the border, another eventful quarter for the US on both the economic and political front. There were two Fed meetings both delivering a 25bp cut but more importantly, Trump decidedly won the presidential race with Americans signaling they want change from the current administration. This victory sparked a violent market rally (best post-election day in history) as enthusiasm for change and deregulation led to outsized market gains for Technology (more M&A) and Financials (less restriction on business activity). However, over the following two months the S&P gave back nearly all its post-election gains. The two quarter point cuts in Q4 were in line with expectations and Powell praised the moderated inflation rate coupled with the resilient strength in economic activity.



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However, the hawkish comments from Powell during the December meeting led to a recalibration of future interest rates and a violent reaction in Capital markets. Specifically, the Fed indicated they expect to cut rates by half a point in 2025 versus the market at 75-100bps. This resulted in a market sell-off with interest rate sensitive stocks getting hit the most. Overall, the Fed has done a good job battling inflation and spurring growth, and we believe a hawkish stance is warranted given the uncertainty on inflation in the coming months from the Trump administration.

Net long exposure went from 93% to 83% in the quarter with decreased exposure in Basic Materials and Energy. We remain bullish on both sectors but more on a measured basis. Stocks that did well in the quarter were also the main leaders for the year heavily represented by Industrials (Zedcor, Kraken Robotics, and MDA Space), Technology (Firan and Celestica) and Basic Materials (Kinross, Torex, and Alamos Gold). The detractors were from a mix of sectors and one-off situations from Consumer Cyclicals, Technology, and Index ETFs and options. While we reduced our exposure to Gold, our bullish thesis is intact, and unchanged from before. In addition, we have taken some profits in the above-named Industrials, but we remain largely bullish on these stocks and actively working on sourcing new small caps with explosive potential. One such name is the following:

**VerticalScope Holdings (FORA) –** With a portfolio of over 1,200 online communities and 100mm+ monthly active users, VerticalScope has built a robust platform for online enthusiasts. Management has extensive experience in M&A, having closed on 230 acquisitions following its strict criteria. Deals are done with a portion of upfront cash with a target multiple of 5-7x TTM EBITDA. FORA is a highly respected company and serves as the go-to consolidator when founders and entrepreneurs are ready to sell. As the preferred acquirer and only active consolidator, activity tends to result in no, to little, bidding wars (competition).

There are a couple flywheels in place we find highly enviable. (1) The Ad Model - the targeted advertising is welcomed by the users because FORA has first party and contextual data that supports what the audience is interested in. This in turn leads to a higher return from ad providers resulting in more spending. (2) The Content - community engagement is only as good as its content. Posters are genuine enthusiasts which AI has yet to replicate placing AI automated content (i.e. Reviews) inferior to user generated content.

The company enjoys a FCF conversion of ~90% and we like the MAU momentum, CPM strength, and strong EBITDA margins. We would like to see more on the revenue growth side, and we believe the company is working on ways to grow its top line. The runway for acquiring and improving niche websites is very long and can be done without the need for raising equity. The stock trades at 6x EBITDA, which we believe is far too low given its growth and profitability profile along with its under levered balance sheet (1.3x Net Debt/EBITDA vs. 2.5x a year ago).

Back to capital markets, Central Banks faced a lot of criticism this time a year ago. Fast forward 12 months and the reality is they have conquered the war on inflation without a major recession. To date it would appear the allusive 'Soft Landing' was achieved - nirvana. We see some of the major themes from 2024 being repeating in 2025 - such as AI growth and stronger equity markets fueled by interest rate cuts. However, we see AI as a potential material risk this year to capital markets as we believe investors will now demand a return on the hundreds of billions of dollars spent on building out AI initiatives. The companies spending for the sake of spending without showing growth in top line will see corrections and those companies that do increase revenue should be rewarded - the same phenomenon that we witnessed in the late 90s with respect to the capex spend for the "emerging" Internet. And as for interest rate cuts, although it seems it's mostly priced in, the caveat/risk here are the potential surprises from the Trump administration namely tariffs (which should be an inflationary path). We cannot say what 2025 will bring for certain but we are assuming even more volatility than 2024. On a relative basis we prefer the TSX here on valuation support (15x vs 23x) and will continue to balance risk and reward by finding opportunities be it from the long or short side.

We thank you for your continued support and look forward to communicating with you at the end of Q1. As always, please feel free to reach out to any of us below.

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