JEMEKK TOTAL RETURN FUND L.P.

Inception date: April 2008
Q3 2026 Commentary

	Q3/26	YTD	Since Inception
Jemekk Total Return Fund	1.04%	4.74%	160.37%
S&P TSX Composite	1.62%	12.97%	356.54%
S&P 500	2.30%	12.75%	721.69%

** Benchmarks quoted in Total Returns*

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After a historically strong Q2 (S&P 500 +15%), markets returned to more normal, yet still positive, performance in Q3 (S&P 500 +2.3%, Nasdaq +2.6% and S&P/TSX +1.6%). However, the modest headline numbers masked one of the more volatile and rotational quarters we have seen in some time. The collapse of the US–Iran ceasefire in early July effectively shut the Strait of Hormuz once again, sending crude oil up roughly 30% (Brent finished the quarter above US$100) reigniting inflation fears just as markets had begun to price in Fed easing. But the main story for Q3 was rates: the Fed, under new Chair Kevin Warsh, delivered its first hike in three years in September, pushing the US 10-year yield through 5% for only the second time since 2008 (it currently sits closer to 5.25%).

Closer to home, the S&P/TSX posted its ninth consecutive positive quarter, with Technology (a narrow but still impressive +18%) by far the most notable contributor. Although performance across the board slightly lagged the US indices, breadth was a touch better in Canada, as Materials (+12.6%) and Energy (+2.4%) offset weakness in the rate-sensitive sectors (Utilities -8%, Communication Services -10%) and, most notably, the Banks (Financials -3.0%), which had been having a big year coming into Q3. Against this backdrop, the Jemekk Total Return Fund (+1.04%) performed essentially in line with our benchmarks. Our overweight in Precious Metals, our US Technology weighting and our modest Energy exposure all contributed positively from the long side, helping to offset our short positions (mostly index-related) and weakness in our Defence theme. More on this below.

Our Precious Metals trade worked despite rates, rather than because of them. Gold traded as high as ~US$4,650/oz on continued central bank and ETF buying before a sharp September pullback (-6.3% in the month), finishing the quarter up a modest 3.7%, while gold equities, as expected, provided the most leverage (NYSE Arca Gold Miners +17.4%, outpacing every S&P 500 sector). With some of our index hedging having rolled off at the end of Q2, as discussed last quarter, the Fund was more exposed to the September drawdown than we would have liked. Although the Fund still posted a positive September (+0.53%), we gave back some good gains in the second half of the month.

Within the Fund itself, the largest positive contribution came from our long-held US Tech positions (META +29%, MSFT +38%), along with a nice contribution from our recent return to Shopify (SHOP +30%), which we have since exited. Precious Metals (an 18% weighting) rebounded meaningfully from Q2 weakness and were also a strong contributor (DSV +44%, BTG +40%). Of note, the mid-tier names we have been rotating into outperformed the seniors and streamers, a trend that was clear across the TSX, where all ten of the best-performing mid- and large-cap stocks in the quarter were in Materials. Energy also contributed, with higher oil prices benefiting our producers (CVE +26% and new name VLE +41%).

On the negative side, in addition to the index hedging mentioned above, our **Defence** theme sputtered in Q3 and led the negative contributors (MDA -28%, FTAI -38%, TSAT -8%). We view this as temporary, as the dollars and attention directed at the group should only increase as the wars in Iran and Russia/Ukraine rage on, and as countries outside the US begin to address decades of underinvestment (more on this below, along with an update on MDA). Two of our other key themes introduced at the beginning of the year, **Build Canada** and **Health Care**, had more muted impacts in the quarter. Within Health Care, Extendicare (-14%), introduced to you last quarter, gave back some of its Q2 gains as rising bond yields weighed on income-oriented names, despite very strong Q2 results (revenue +59%, adjusted EBITDA +72%). And, although it is early days, our Build Canada theme continues to grow with the addition of Toromont Industries (TSX: TIH), a name well known to the team at Jemekk. We will have more to say on TIH in future commentaries.

As promised, here we revisit the Defence theme and explain why we believe it remains so important to the Fund, and to equity markets, even in Canada.

Defence, one of the Fund's four 2026 themes and among its strongest contributors this year, continues to benefit from the most significant shift in Canadian defence policy in a generation. Although the theme de-rated in the quarter, we remain committed for the following reasons:

- **A Real, Multi-Decade Spending Commitment** – Canada met the NATO 2% target this fiscal year and has committed to 5% of GDP by 2035 (3.5% on core defence plus 1.5% on defence-related infrastructure). The Parliamentary Budget Officer estimates that reaching 3.5% alone implies roughly $63b of additional annual spending by 2035. Unlike prior cycles, this commitment is being driven by our allies and a deteriorating geopolitical backdrop, which makes it far less discretionary and far less likely to be reversed.

- **Buy Canadian** – The February 2026 Defence Industrial Strategy targets 70% of Federal defence contracts going to Canadian firms within a decade, and the newly created Defence Investment Agency is designed to speed up that procurement. Canada's participation in the EU's SAFE initiative opens a further market for Canadian suppliers. The beneficiaries are a relatively small group of domestic companies with the scale and security clearances to compete, which is exactly where we have focused.

The key risk we see is execution: major platform timelines still stretch well into the next decade, which is why we favour companies selling into programs that are already funded. On balance, we remain committed to the theme and continue to add to our names here into the pullback. We also continue to look for new names as procurement broadens into shipbuilding, munitions and Arctic infrastructure (think Exchange Income Fund).

It is worth updating our thesis on our main Defence holding, **MDA Space (TSX: MDA)**, which fell 28% in the quarter after gaining 66% in Q2. MDA had an eventful summer, agreeing in June and July to two acquisitions totaling roughly C$1.8b. Blue Canyon Technologies (BCT), a Colorado-based maker of spacecraft buses and satellite components with about 75% defence-related revenue, is being acquired from RTX for US$620mm and adds $225mm of revenue in 2026. Collecte Localisation Satellites (CLS), the French earth-observation data and analytics firm, is a 70% purchase for C$920mm (CNES retains 30%) and adds C$465mm of revenue. Collectively, the deals lift pro forma revenue to about C$2.5b from the C$1.8–1.9b guided for the standalone company. Both are expected to close between Q4 2026 and early 2027, subject to approvals. Management guides to neutral-to-negative free cash flow for the year and to "post-close" leverage of 1.5x to 2.5x net debt to EBITDA, from a net cash position today.

The thesis has changed in kind, not only in size. We owned a Canadian prime with leading positions in satellite manufacturing and space robotics; we now own a larger, more diversified space and geointelligence platform with US and European exposure, which should reduce reliance on a few large programs. The price is a more levered, more integration-dependent story at a time when sector supply is heavy and investors are being asked to fund growth rather than harvest cash. We think the pullback is largely a valuation reset after a 66% run and a C$1.15b share issue, not a break in the thesis, and we have held our core position throughout. MDA is paying about 20x EBITDA for BCT and about 18.5x for CLS, both below the roughly 22x at which MDA itself traded before the announcements; both businesses are free-cash-flow positive and both are expected to be accretive. Customer concentration has been the risk we respect most: three customers made up 78% of 2025 revenue, and EchoStar cancelled a C$1.8b satellite order about five weeks after signing it. These two acquisitions should materially reduce that risk. What we will watch is closing and integration, free cash flow turning positive in 2027, and margins holding in the 18% to 20% range. We also acknowledge that pipeline is not backlog, and the market is clearly focused on backlog growth. For this stock to work, MDA needs to convert its pipeline.

As is typical, we would like to highlight a new addition to the Fund.

WSP Global (TSX: WSP) is one of the world's largest engineering and professional services firms, with about 84,600 employees in more than 50 countries. It designs and manages infrastructure across transportation, property and buildings, water, power and energy, earth and environment, and mining. The stock has de-rated materially on fears of AI disruption. Why we like it:

- **Record backlog with accelerating organic growth:** Backlog rose 23% year over year to C$20b, or 11.6 months of revenue. Organic backlog grew 5.7%, the strongest since 2022, and Q2 organic net revenue growth reached 5.0% across all reportable segments.
- **Margin expansion:** Adjusted EBITDA rose 28.8% to C$815mm, and the margin widened to 19%, driven by productivity gains in the US and Canada. Management raised its 2026 adjusted EBITDA guidance to C$3.10–3.18b.
- **Power and energy scale through TRC:** The US$3.3b acquisition of TRC (14.5x EBITDA, 12.5x after synergies) closed in February. TRC is a leading US power delivery and grid platform, and management says its Power & Energy business is growing at a double-digit rate.

WSP has transformed from a Canadian consultancy into a global platform, adding Ricardo last October and TRC in February. The main risk is leverage: at 2.3x net debt to EBITDA, it sits above the 1–2x target range, though management expects it to be back in range by year-end. The 2025–2027 strategic plan targets net revenues above C$17b, a 19–20% margin and a long-term ambition of 22%, which we think is credible given the backlog. WSP traded at a premium multiple for over a decade because management consistently compounded EPS, executed on acquisitions, expanded margins, generated excellent cash flow and deployed capital exceptionally well. From our perspective, none of that has changed, and the concern that AI will reduce demand for engineering labour is overdone – in many cases, AI could actually expand margins. Today, investors can buy the Canadian E&C name with the highest earnings growth at the lowest valuation in the group, and we believe that gap will close.

As we begin Q4 2026, we remain constructive on equities, as evidenced by our net long positioning in the high 70s, an increase over the quarter. US earnings remain the market's strongest pillar (S&P 500 earnings grew more than 50% y/y in Q2, with full-year growth tracking above 30%), and Canadian valuations remain attractive relative to the US. However, risks remain elevated: the combination of an energy supply shock, a Fed that has shifted to tightening, and 10-year yields above 5% has materially tightened financial conditions, and market leadership narrowing to a handful of AI-driven mega-caps remains a concern.

In our view, the near-term path depends heavily on inflation and the US midterm elections. On energy, a durable resolution with Iran would bring oil, inflation and yields lower and would likely reward the areas that have lagged (small caps in particular), while a prolonged disruption would keep the pressure on. As for the midterms in November, we expect the removal of that uncertainty to support a path to higher equity markets. We continue to favour Precious Metals (central bank and ETF buying remained strong even as prices fell in September, a sign of underlying demand we find encouraging), Defence and select Resources, and we will continue to use index hedges as the insurance they are designed to be, adding to them should conditions deteriorate further.

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

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