Libertas Real Asset Opportunities Fund

Spartan Fund Management

Quarterly Report

Q1/2017

Performance Summary

	Q1/2016	Q2/2016	Q3/2016	Q4/2016	Q1/2017	2017 Year-to-date	Since Inception
US$	-11.46%	-6.31%	-14.25%	-29.91%	-12.34%e	**-12.34%**	**-53.07%**
US$ (C$ equiv.)	-17.02%	-6.70%	-12.92%	-28.25%	-13.17%e	**-13.17%**	**-42.80%**

'e' refers to estimated returns, as opposed to final returns. The estimated returns for the current month are included in the calculation of all other returns and statistics.

Commentary

Toronto's blow off top accelerated while the rest of Canada's housing markets continued to soften. Median resale prices for all property types in the GTA rose an eye-popping 34% y-o-y. This implies that the total GTA housing stock is now worth $511 billion more than it was the year before; to put this in perspective, the region's GDP is ~$450 Billion. The average homeowner "earned" $230k on paper from their house last year, as compared with ~$80k median total household income. We think that the Toronto mania is primarily the result of two factors: 1) a one-time benefit from the Vancouver tax driving foreign money flows east, and 2) increasingly risky domestic lending that is fueling a speculative frenzy among domestic residents. As if to underscore this point, fifteen thousand people attended the Learning Annex's Toronto Real Estate Wealth Expo last month to learn how to get rich quick from real estate (http://realestatewealthexpo.com/toronto/). Tony Robbins and Pitbull were headline performers; Pitbull unironically sang his smash hit "Don't Stop The Party" (https://www.youtube.com/watch?v=Xa7koxmyHUw). SF Gate wrote an article (http://www.sfgate.com/entertainment/article/Was-last-weekend-s-Real-Estate-Wealth-Expo-the-2538443.php) in March 2006 about San Francico's own Learning Annex Real Estate Wealth Expo (headlined by Donald Trump and Tony Robbins) that presciently questioned whether the event marked the top of the housing market. Some choice quotes: "I approached Kiyosaki to ask if it wasn't a terribly bad sign that so many people had shown up to a conference like this one" and "But as I sat in the front row and listened to Trump, who is paid $1.5 million for his talks, I couldn't help but feel this frenetic carnival of high-flown cash-flow churn uncomfortably in my gut." History may not repeat, but it certainly rhymes.

We think that the probability of further government intervention has increased materially in recent months as Toronto's housing bubble makes international news headlines. The big banks, top economists, the media, and even government officials are calling for cooling measures. We think that some sort of foreigner tax and/or flipping tax will be passed in Ontario shortly, and think that some sort of CMHC-bank risk sharing is likely later this year. The regulatory credit tightening that came into effect in November of 2016 continues to ripple through the mortgage markets, leading to a material (+50%) decline in originations at certain prime lenders and monolines and an equally large spike in alternative and private lender originations. We have also seen lenders increasing their construction loan business in order to maintain their growth targets--construction loans are arguably even riskier than subprime. The Globe ran an excellent expose (http://www.theglobeandmail.com/report-on-business/mortgage-investment-corporation-canada-real-estate/article34526694/) on the private lending boom in Canada. We continue to expect the private market to be the chokepoint for consumer credit creation and would not be surprised if the industry came under closer regulatory scrutiny.

We recently returned from a trip to Vancouver, where our contacts confirmed the difficulty in moving money out of China. Small amounts of money can still be transferred and leveraged into a sub-$2mil property, which partially explains the boom in this segment of the market. However larger amounts of money are significantly more difficult to move now than it had been in the past. Several contacts explained that they were worried that their customers would have to sell at least one of their empty houses to cover the carrying costs, since the customers had no Canadian income and were having trouble moving enough money to cover the mortgage/taxes/insurance/etc.

The myth of the prudent Canadian banking system took another blow this quarter as the CBC alleged that that the Canadian banks had taken lessons from Wells Fargo (https://www.thestar.com/business/2017/03/15/allegations-against-canadian-banks-spark-federal-investigation.html). We think this development is important for two reasons. First, it makes it difficult to reconcile the reputation of the Canadian banking system with the actual practices reported in the news recently. If the Canadian banks are allegedly mailing out credit cards and extending debt to people who didn't even ask for it, one can only imagine what is taking place in their mortgage lending book. Second, it increases the potential for regulatory oversight and lower margins as banks are forced to cut back on aggressive sales techniques while spending more to retain customers.

We think that the Canadian regulators will be forced to pop the Toronto bubble shortly, which will cause the Canadian economy to face its day of reckoning; your fund is positioned accordingly.

Fund Information

RSP Eligible?	Yes
Minimum Investment	C$25,000
Subscription Frequency	Monthly
Redemption Frequency	Quarterly
Redemption Notice	1 month
Early Redemption Fee	7% < 1 year
'A' Class Management Fees (SPA750)	2.25% pa
'F' Class Management Fees (SPA760)	1.25% pa
Performance Fee	20%

Service Providers

Advisor	Spartan Fund Management Inc.
Sub-Advisor	JKD Capital, LLC
Prime Broker	BMO Nesbitt Burns
Auditor	Deloitte LLP
Administrator	SGGG Fund Services
Legal Counsel	McMillan LLP

Discounted management fees are available for a limited number of investor or investment advisors investing at least $5m.

See website for full details.

Investment Thesis

Canada has one of the most overvalued housing markets in the world and the Canadian economy is over-reliant on debt growth and the housing market. Both supply and demand will begin working against the housing market in 2016.

Investment Objective

To provide Canadians with an avenue to mitigate their exposure to housing and its potentially negative impact on their livelihoods and savings.

Investment Strategy

To find investments that will benefit from a decline in Canadian house prices. We aim to find investments that earn an asymmetric payoff, suffering small losses when we are mistaken and large gains when we are correct.

Corporate Overview

Spartan, established in 2006, is a Toronto-based investment management company that specializes in boutique investment strategies managed by experienced investment managers. Spartan's infrastructure, which adheres to institutional standards with independent risk management and compliance and well-known third party service providers, gives our investment management teams the ability to focus on investing and provides investors with the comfort that their money is being managed to a standard usually only available with larger funds.

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