



Performance Summary

	Q3/2017	Q4/2017	Q1/2018	Q2/2018	Q3/2018	2018 Year-to-date	Since Inception
US\$	-24.88%	-26.30%	+34.87%	-2.83%	-17.22%e	+8.49%	-70.37%
US\$ (C\$ equiv.)	-27.76%	-25.91%	+38.62%	-0.77%	-18.62%e	+11.95%	-64.84%

'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

The major theme of Q3 was continued Canadian credit tightening against a global backdrop of rising rates. Domestic Canadian household loan growth continues to decelerate, down to 20-year lows in July when measured on a 3-month annualized basis. Canadian Residential mortgage loan growth slowed to 3.1% y-o-y in August—the slowest growth since 1983.

Mortgage costs continue to rise as a result of both the global bond market sell-off and tightening Canadian credit (primarily due to B-20). Canadian 5-yr bond yields are now just under 7-yr highs. The “mortgage renewal gap” (i.e. the change in monthly mortgage payments at first renewal on a 5-yr term) remains positive—the last time the mortgage renewal gap was positive for a sustained period of time was in the early 1990’s. HELOCs are beginning to sting, as banks have begun raising both the prime rate (due to bond yields) as well as the premium to prime (to better reflect risks?). Recall that HELOCs form the base of an extremely unstable, risky funding scheme for the Canadian housing market and consumer economy.

Household debt service ratios jumped to 10-year highs. Household interest expenses outpaced disposable income growth in Q2 by the widest margin since Q4/2007, as interest payments rose 13% y-o-y. Since Q2, the effective consumer interest rate has hit a 7.5 year high, implying that a borrower qualifies for ~5.5% less home than last year and ~9.5% less than November 2016 (the

all-time low). Canadians haven’t been able to maintain a rate this high for more than 5 weeks in the past 9 years. Household disposable income growth appears to be slowing as well, and the consumer appears to be rolling over (several bellweather consumer stocks missed expectations, auto sales posted the largest drop since 2009, etc.)

Canadian Real Estate sales volumes in August crashed to the lowest levels since 2013. Vancouver seems to be unraveling quickly: sales plummeted ~37% y-o-y. Greater Vancouver condo inventory jumped 75% y-o-y in September. There are nearly 50 months of inventory on properties prices above \$2mil in East and North Vancouver. Home builders have begun offering aggressive promotions rather than cutting prices. The GTA housing market remains tepid and Alberta’s malaise continues.

China remains sidelined, as their capital control noose tightens, the government attempts to repatriate Chinese assets abroad, and the government appears to be re-communizing the economy. This appears to be working its way through global and Canadian real estate markets. The Manhattan housing market is steadily weakening, with four straight quarterly declines in sales & the biggest pileup of listings for a third quarter since 2011. More pronounced impacts are seen in Chinese hotspots such as Vancouver and Australia.

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.

Spartan Overview

Spartan, established in 2006, is a Toronto-based investment management company that specializes in niche investment strategies managed by experienced investment managers with proven track records. Spartan's infrastructure adheres to institutional standards with independent risk management and compliance, and well-known third party service providers. This allows our investment management teams to focus on investing and provides investors with the comfort that their money is being managed to the same standard as larger funds.

Investor Contacts:

Gary Ostoich
416-601-3171
gostoich@spartanfunds.ca

Paul Patterson
416-601-3175
ppatterson@spartanfunds.ca

Advisor Contact:

Brent Channell
416-601-3172
bchannell@spartanfunds.ca

Office Address:

Spartan Fund Management Inc.
100 Wellington St. W., Suite 2101
Toronto, ON M5K 1J3
www.spartanfunds.ca

The above returns are net of management and performance fees for the "USXF" series of units, but do not take into account early redemption fees if investments are held less than 1 year. Please review the most recent offering memorandum for a detailed description of the Fund's strategy, objectives and risk factors. The above is provided for informational purposes only and is qualified in its entirety by way of the most recent offering memorandum, which is only available to qualified investors. Prospective investors should consult with a professional financial advisor before investing. Past performance cannot predict future results. Share value and yields will fluctuate. There can be no assurances that any of the Fund's objectives will be met. See Terms and Conditions of our website (www.spartanfunds.ca) for important information and qualifications regarding the use of benchmarking and indices. The index above was chosen as it is a widely used benchmark of the Canadian equity market. While the Fund uses this index for long-term performance comparisons, it is not managed relative to the composition of the index. There are differences which include security holdings, geographic and sector allocation which impact comparability. As a result, the Fund may experience periods when its performance differs materially from the index.

The Fund is a related and connected issuer of Spartan Fund Management Inc. Spartan may act as dealer in connection with the distribution of securities of the Fund and will also receive management and performance fees from the Fund.