MM Fund

Spartan Fund Management

December 2017

Corporate 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.

Fund Overview, Objectives and Strategy

The MM Fund invests utilizing a "core and more" approach. The core portfolio consists of sustainable high yielding or dividend paying Canadian equity securities and, to a lesser extent, real estate investment trusts, convertibles, debt securities, preferred shares and U.S. equity securities.

The "more" consists of equity and debt, plus potentially warrants, small and micro capitalization stocks, that will likely have more volatility but a higher potential for capital gains. We will focus on inexpensive secular growth securities or beaten down stocks that have turnaround potential, because of new management, or because of an improvement in their macro-economic factors. We may also look to shorter-term event driven trading opportunities around, for instance, earnings, politics, war, famine, scandal, seasonality, apathy, etc.
Investments will mostly be made in Canadian equity securities and, to a lesser extent, debt securities and U.S. equity securities. The holdings in the core portfolio will typically be held for longer periods.

Monthly Performance[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	TSX
2017	-0.75%	+1.52%	+0.66%	+5.43%	+4.21%	+0.77%	-1.67%	-0.69%	+1.43%	+2.36%	+2.77%	+0.59%	+17.69%	+9.10%
2016	-7.00%	+5.44%	+4.12%	+0.65%	+3.51%	+0.48%	+0.95%	+5.75%	+3.49%	+3.15%	+1.04%	+1.67%	+25.13%	+21.08%
2015							-2.26%	-7.10%	-4.19%	+7.05%	+4.11%	+1.13%	-1.95%	-9.93%

Statistics[1]

	MM Fund	TSX
Cumulative Return (since inception)	44.40%	18.97%
Annualized Compound Return	16.10%	7.31%
1-Year Return	17.69%	9.10%
Sharpe Ratio	1.38	1.01
Avg. Monthly Gain	2.71%	1.60%
Avg. Monthly Loss	-3.38%	-1.72%
Max. Drawdown	13.00%	10.99%
Annualized Std. Deviation	11.68%	7.24%
% of Winning Months	76.67%	70.00%
Correlation	0.48	

Fund Information

RSP Eligible?	Yes
Minimum Investment	$500
Invest/Redeem Frequency	Weekly
Short Term Trading Fee	2% if < 30 days
Redemption Notice	1 day
'A' Class Fees (SPA520)	2.00% pa
'D' Class Fees (SPA522)	1.25% pa
'F' Class Fees (SPA521)	1.00% pa
Incentive Fee	10%
Hurdle	TSX Total Return Index

Service Providers

Advisor	Spartan Fund Management Inc.
Custodian	Laurentian Bank Securities
Auditor	Deloitte LLP
Administrator	SGGG Fund Services
Legal Counsel	Borden Ladner Gervais

NAV/Unit

- Class A	141.8212
- Class D	144.3977
- Class F	146.3092

*1 Performance numbers are for the period commencing July 15, 2015 for the Class D units. Returns and statistics for other classes are available on request. '**Monthly**' returns are simple returns and are not annualized. '**Annualized Std. Deviation**' is the standard deviation, which measures the amount of variability of returns that has historically occurred relative to the average return. '**Max. Drawdown**' is the maximum percentage decline, from the highest point to the lowest point. '**Sharpe Ratio**' is the Annualized Compound Return divided by the Annualized Std. Deviation, both measured since inception. **Correlation** measures the degree to which two securities move in relation to each other.*

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated, rates of return for periods greater than one year are historical annual compound total returns including changes in unit or share value and reinvestment of all distributions, and do not take into account any sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Monthly Commentary

In 2017 over 1 in 4 trading sessions resulted in new record highs on the Dow – 75 new highs in total. The Dow total return index was up 25%, the second best performance in the past decade, and was up every month for the first time since 1970. However we would temper investor enthusiasm by noting that past performance is no indicator of future results, and that the 1970s was a fallow period for stocks.

The S&P 500 has already gone 387 days without a 5% correction, the second-longest streak ever, and it seems likely to break the streak of 394 days (94-96) by mid-January. The S&P 500 has already gone a record 15 months without a 3% decline (November 2016). The defining characteristic of 2017 markets was the lack of volatility, as the average daily change of 0.3% was the lowest since 1964, and the VIX volatility index plumbed record lows around 9.

All 45 countries tracked by the OECD showed growth, meaning there was a perfectly synchronized global recovery for the first time ever. We believe synchronized global demand will mean increased demand for commodities, and is potentially inflationary.

Bond yields continue to creep up, to 2.48% from 2% in September, and rising bond yields are ultimately likely to snuff this bull market, like previous ones. Higher bond yields make stock yields relatively less attractive, and we will be watching bond yields closely over 2.6%

Inflation, particularly wage inflation could become a concern with unemployment falling 0.2% to a record low of 5.7% in Canada, and 4.1% in the U.S., the lowest since 2000. Of note, "have-not" Quebec now has a record low unemployment rate of 4.9%, significantly below the National average. Minimum wage hikes in Ontario, Alberta, and 19 U.S. states will likely further push up prices significantly, especially at restaurants.

Another big risk is that the party in power usually loses ground in the mid-term November U.S. elections, and this effect is likely to be exasperated with President Trump's unpopularity. The loss of only a couple Senate seats will make the President a lame duck with no legislative support to enact his agenda. Impeachment also becomes a high probability event, in the more unlikely event that the Democrats win 23 seats in the House, and can begin to order investigations.

President Trump's one but significant legislative achievement was the tax cuts he signed just before Christmas. However he had a big economic impact through executive orders, particularly deregulation of the financial sector, and untethering the energy sector (Keystone). The bill cut the corporate tax rate to 21% from 35%. The corporate tax cut should increase earnings for the S&P 500 by about 10%, a clear positive for stocks.

Most taxpayers should see lower taxes, and this should increase consumer spending, while companies should increase capital equipment spending as it is now immediately deductible. Another benefit will be the repatriation of $3.1 trillion in overseas earnings that can then be used for domestic investment, dividends, or stock buybacks. Corporate income can be brought back to the U.S. at tax rates between 8 and 15.5%, versus 36% previously.

While the average earnings boost is about 10%, domestic US companies should benefit the most, with some of them seeing taxes plummet from 36% to 21%. Multi-nationals will benefit less long term as their taxes are already low as most of these companies take advantage of low-tax jurisdictions. Our US financial and airline holdings should benefit greatly from lower corporate and personal taxes.

S&P earnings are expected to grow another 16% to $145 in 2018, likely too optimistic even with synchronous global growth, as profit margins are already at record levels. Earnings growth accelerated to 17.6% in 2017, compared to only 6% in 2016. Markets were helped by unexpectedly strong earnings growth in 2017 compared to decelerating growth in 2016. Energy, materials and technology led earnings growth in 2017, while the interest sensitive real-estate, consumer discretionary, utilities, and staples lagged.

Energy, health care, technology and materials sectors are expected to lead earnings growth in 2018, while the laggards are expected to be the same again.

However, if these estimates hold, the S&P 500 is trading at 18.6 times forward earnings, only slightly above the long term average of 18.

We continue to be constructive on stocks, and have increased the MM weighting of the higher beta and more speculative "more" portfolio, from 36% in July to almost 46% now.

The big change in portfolio composition for the MM fund is that we bought two oil-weighted energy producers and our first mining company (copper to be more specific). These are "more" stocks, and we think both should benefit from accelerating growth in the global economy. Oil stocks seem to be a particularly compelling opportunity, as oil prices have hit the highest level in 3 years, while the TSX energy index is fell 17% in 2017. The energy weight for the MM portfolio has now increased to 8% from 1% in May.

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