

# MM Fund



## 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.

## 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<sup>1</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	TSX
2018	+0.18%	-2.09%	-1.89%	+1.97%	+1.52%								-0.39%	+0.25%
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<sup>1</sup>

	MM Fund	TSX
Cumulative Return (since inception)	43.84%	19.27%
Annualized Compound Return	13.47%	6.31%
1-Year Return	5.21%	7.75%
Sharpe Ratio	1.21	0.86
Avg. Monthly Gain	2.54%	1.67%
Avg. Monthly Loss	-3.07%	-1.67%
Max. Drawdown	13.00%	10.99%
Annualized Std. Deviation	11.14%	7.32%
% of Winning Months	74.29%	65.71%
Correlation	0.50	

## 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	140.8091
- Class D	143.8407
- Class F	145.9170

<sup>1</sup> 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

After a brief respite from volatility in May, it picked up again over the last week on worries about Italy, and President Trump's steel tariffs. The Dow had +/- 100 point moves over the last seven days.

Italy was initially unable to form a government after its election, and the compromise candidate for PM has no political experience. One party in the coalition wants to cut taxes, and the other promises a guaranteed income (increased spending). These would be interesting academic political discussions, but dysfunction in Italy is a market concern as Italy's 132% debt to GDP is only sustainable because the ECB has been buying Italian debt to push down financing costs. Members of the new coalition government are pushing for an Italexit, so worries about the European Union disintegrating are increasing just as Britain is negotiating its Brexit.

Italian ten year bond yields almost doubled in May, from a low of 1.7% to 3.1%. They have fallen back 60 bps in recent days, after the coalition finally settled on a PM and Finance Minister.

The U.S. continues to raise interest rates on a quarterly basis while most of the rest of the world is engaged in quantitative easing (Europe, Japan), or stuck with very low rates, like Canada. Higher and rising US yields make the US dollar and bonds more attractive, but flight to safety buying pushed U.S. bond yields down 35 bps, well below 3%. Lower treasury bond yields helps the 56.3% of the MM portfolio that yields more than 4%. The blended yield of the

MM portfolio is 4.5%.

This flight to safety buying has also pushed the US dollar (DXY) up over 5% since the end of April, and pressured other currencies worldwide, including the Canadian dollar. There are signs of distress in financial markets as some emerging market currencies are very weak. The Turkish Lira plunged almost 10% in May, and is down 18% so far this year. The Mexican Peso has plunged about 10% over the last six weeks as President Trump is getting impatient to wrap up NAFTA trade negotiations, and Mexican auto and manufacturing plants are the main targets of his ire. The Mexican stock exchange was down 6.9% in May.

Despite these concerns, the U.S. is for now a safe haven from trade concerns, and the Nasdaq, S&P 500, and TSX were amongst the best performing global markets in May gaining 5.5%, 2.4% and 3.1% respectively. Smaller emerging markets were vulnerable to capital flight: Brazil plunged -10.9% in May, Greece -11.9%, Italy was down 9.2%, Budapest -7.7%, Turkey -12.7% and Spain fell 5.2%.

On the other hand a strong ISM manufacturing report, strong US auto sales, and the summit with Kim promise continued peace and prosperity, at least in North America.

Canada looks to have painted itself into a corner by siding with Mexico in the NAFTA talks even though we have no strategic

interest with Mexico, and a huge trade deficit with Mexico. President Trump has an intense dislike for multilateral talks where countries tend to gang up on the U.S., and he has now upset the apple cart ahead of Trudeau's carefully orchestrated G7 summit. We continue to have a bias for a lower loonie in the MM Fund, as 50% of the Fund benefits from a lower Canadian dollar.

Oil prices hit \$72 in May, the highest level since 2014. Our 14.6% energy position helped the fund to gain 1.52% in May. Pembina Pipeline increased its guidance and its dividend by 5.6%. However, we have not increased our energy position since March, as we want to see the downside of the range in oil prices with a stronger USD and surging U.S. production. We have however been accumulating related plays, whose businesses should benefit from the higher range in oil prices. We have also been buying a couple of MM 'More' names where we see near term catalysts. We also want to continue to increase our exposure to cyclical dividend payers. The Core-More breakdown is now 54% to 46%.

In May, the MM Fund benefitted from strong earnings in four of its largest holdings: Dream Global, Canwel, Photon Control and Inovalis. As well, the Stars Group announced a takeover in the higher growth sports betting market in April, and continued to rise in May on the prospect that sports betting will be legalized in the U.S.

## Investor Contacts:

**Gary Ostoich**  
416-601-3171  
[gostoch@spartanfunds.ca](mailto:gostoch@spartanfunds.ca)

**Ed Sollbach**  
416-601-5607  
[esollbach@spartanfunds.ca](mailto:esollbach@spartanfunds.ca)

**Paul Patterson**  
416-601-3175  
[ppatterson@spartanfunds.ca](mailto:ppatterson@spartanfunds.ca)

## Advisor Contact:

**Brent Channell**  
416-601-3172  
[bchannell@spartanfunds.ca](mailto:bchannell@spartanfunds.ca)

**Spartan Fund Management Inc.**  
100 Wellington St. W., Suite 2101  
Toronto, ON M5K 1J3  
[www.spartanfunds.ca](http://www.spartanfunds.ca)