MM Fund

Spartan Fund Management

April 2020

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[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	TSX
2020	+0.28%	-7.56%	-23.35%	+19.76%									-14.91%	-12.36%
2019	+7.98%	+7.53%	+4.11%	+0.81%	-4.35%	+1.08%	+0.93%	-4.74%	+1.47%	+1.74%	+3.40%	+1.89%	+23.19%	+22.88%
2018	+0.18%	-2.09%	-1.89%	+1.97%	+1.52%	-0.24%	+0.27%	-1.27%	-1.31%	-9.60%	-4.81%	-6.09%	-21.54%	-8.89%
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)	18.75%	16.74%
Annualized Compound Return	3.65%	3.28%
1-Year Return	-13.98%	-7.91%
Sharpe Ratio	0.19	0.25
Avg. Monthly Gain	3.00%	2.12%
Avg. Monthly Loss	-4.79%	-3.03%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.10%	13.12%
% of Winning Months	67.24%	65.52%
Correlation	0.85	

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	114.5647
- Class D	118.7506
- Class F	121.1236

*[1] Performance numbers are net of management and performance fees for the period commencing July 15, 2015 for the Class D units, but do not take into account early redemption fees if investments are held less than 1 year. 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.*

Monthly Commentary

“There are decades where nothing happens; and there are weeks where decades happen.”

The pandemic has had a biblical effect on the economy. In two months the U.S. unemployment rate has rocketed from a 50-year low of 3.5%, to 14.7%, the highest level since the Great Depression of the 1930s. There were 20.5 million job losses in April, one third in leisure and hospitality, and 2.1 million in retail.

Given all the historically horrible news, why have markets been rallying since the end of March?
There has been unprecedented fiscal and monetary stimulus around the world. The U.S. has already passed $2.5 trillion in stimulus to support consumers and businesses through the pandemic. The Federal Reserve has announced unlimited “quantitative easing”, money printing, and took the unprecedented step of announcing purchases of corporate and municipal bonds. The U.S. Federal Reserve is mandated not to lose money with its purchases, but this will be difficult to avoid as it moves to purchase risky corporate bonds in a recession.

Because of the unprecedented nature of this recession there has been much debate about the nature of the hoped for recovery: “L” (none), “U” (a prolonged downturn), or “V”, a quick and powerful recovery from the lows.

We believe axiomatically, the initial recovery has to be a “V”, as each store, business, or restaurant in each state or province reopens, with new safety protocols.

The stock market looks ahead 3 to 6 months so the rally since March is discounting the rapid economic recovery the market sees through the summer.

However beyond the initial openings there are so many questions.

First the health questions are paramount. We know young people are usually asymptomatic, but can children spread the flu? Do antibodies offer protection? Will summer and heat slow the spread? Will there be a second wave?

We think a safe vaccine may be at least a year off, however therapeutics like Gileard’s remdisivar could dramatically lower the death rate to levels of the seasonal flu.

Will consumers come back or feel uncomfortable? What about travel and mass gatherings like sporting events? Without these a large part of the economy will remain shutdown.

Thus there is considerable risk that the recovery slows down after the initial excitement about re-openings, especially if consumers do not come back as they did pre-virus. Older people may be especially hesitant to go out or travel, and they tend to have more discretionary income. There is also the worry that a virus flare up, could bring back shelter in place orders. With so many unknowns, all we know for sure is that confidence will breed confidence, and fear breeds fear.

Hopefully, governments unveil massive infrastructure programs over the summer, when there is great risk that the recovery stalls out, so taxpayers at least can benefit from the infrastructure for generations to come for the deficits that are piling up. Temporary one-time cheques do not build long-term confidence like a long-term meaningful job.

The MM Fund was aggressively repositioned in February and March for both near and medium-term opportunities for the “new normal” that the pandemic has unfortunately brought us and was rewarded in April. The Fund now has 4 categories of investments: bonds, companies that can benefit from the worldwide effort to mitigate the virus, companies that can thrive in the “new normal” with continued social distancing, and gold. It is critical to position the portfolio, for the sequencing that will happen as the economy is opened up.

We have winnowed our portfolio to companies that can thrive in a “new normal” of social distancing, record low interest rates, and limited air travel. Technology has helped the economy function through this pandemic, and we have seen positive surprises in that part of the portfolio.

We have created a new sector for the MM portfolio: 28.6% of the portfolio is now companies that can benefit from the worldwide effort to defeat the pandemic.

We believe our COVID stocks are offering solutions to this pandemic and will also benefit financially.

People are looking to gold and precious metals in times of uncertainty, as gold has broadly held its value over the millennia. Low or negative interest rates and money printing historically help gold as the holding cost for this insurance falls to near zero. Gold stocks are now a 10.4% position and gold has soared to eight year highs, as other commodities have plummeted because of lack of demand.

The MM Fund has rebounded well in the past from significant downturns, and some of its companies, especially in the health care space, had very strong results in March and April.

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