MM Fund

Spartan Fund Management

August 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%	+11.04%	+4.93%	+8.05%	+3.47%					+10.84%	-1.05%
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)	54.69%	31.80%
Annualized Compound Return	8.88%	5.53%
1-Year Return	20.55%	3.80%
Sharpe Ratio	0.46	0.43
Avg. Monthly Gain	3.36%	2.21%
Avg. Monthly Loss	-4.79%	-3.03%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.44%	12.92%
% of Winning Months	69.35%	67.74%
Correlation	0.84	

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	148.8664
- Class D	154.6890
- Class F	157.9310

*[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."

Markets continue to see signs of the strong "V" recovery in the economy, as each store, business, or restaurant in each state or province reopens, with new safety protocols.

Despite setbacks on the virus front in the U.S., the "V" recovery continues with a very strong and better than expected 1.4 million new jobs in the U.S. and 246,000 in Canada. However, the pace of the gains is slowing, as the easy non-social distancing hirings have already happened. June had a record 4.8 million new jobs, and July 1.8 million. Unemployment has plunged to 8.4% - almost half the 14.7% peak of April.

The US manufacturing index rose strongly to 56 from 54.2 in July, suggesting strong expansion in manufacturing. This was the strongest reading in over one year since January 2019.

Services are more important for the economy, representing 2/3rds of the economy. Services growth remains at a high level of 56.9, the highest reading since November 2018.

We still believe the success society has in controlling and ultimately vanquishing the virus will determine the path of the economy and markets in coming months.

Countries like Australia, Spain, France, Germany, Israel, Vietnam, and Japan that seemingly brought the virus under control, have seen large flare-ups in recent weeks. Spain, France, Germany and Italy were down to a few hundred new cases a day in July, but Spain spiked to over 12,000, France to over 10,000, and Italy and Germany to about 2,000. This is worrisome for Canada where new daily case counts are trending up, and the schools are opening up again after a 6-month shutdown.

The U.S. got the new daily counts below 20,000 with the partial shutdowns, but they soared above 75,000 in mid-July. In the last few weeks new cases are between 30,000 and 50.000 per day. The U.S. virus response has been an inconsistent mess, but they are learning the hard way the importance of social distancing, and masks indoors when that is not possible. About 80% of the U.S. population is now under a mask mandate. Bars and night clubs seem to be the culprit for many of the flair ups.

In any case, therapies and better treatments are lowering death rates, and societies are now doing a much better job protecting the vulnerable. Several promising vaccines are advancing, and we should see results of large-scale trials in September. If safe and efficacious, the U.S. is likely to begin rolling out a vaccine in November or December.

Thus our base case is that the reopening of the economy will continue, albeit at a slower pace, and we have been emphasizing the reopening trade with new investments since May. The Fund was repositioned in March for the pandemic world and now has 4 categories of investments: bonds and preferred stocks; companies that we believe can benefit from the worldwide effort to mitigate the COVID virus; companies that we believe can thrive in the "new normal" with continued social distancing in the reopening; and gold and silver. It is critical to position the portfolio for the sequencing that will happen as the economy is opened up.

The wide public will become engaged with the U.S. election with the Presidential debates at the end of September. Joe Biden's policies will not be helpful for stock valuations. He wants to raise corporate taxes to 28% from 21% of profits. Money math suggests that if companies pay 7 points more in taxes then corporate profits are about 10% lower, and stock prices will also be 10% lower if multiples are unchanged. His stated policy to double the capital tax gains will likely cause a stampede in stock selling at year end, to lock in gains at much lower rates.

There seemed to be a disconnect in late August, between markets that seemed to be celebrating a Trump comeback, while the polls seem to continue to suggest a strong advantage for Biden. Of course, pollsters were shocked in 2016 by both Trump and Brexit.

Stocks continued to rally before peaking on September 2nd. Tech stocks have been the main beneficiaries of the extended shutdowns, became very overbought and fell 5% on September 3rd, and then another 1.3% the following day.

Through the summer we emphasized "reopening" stocks like fast food restaurants, asset managers, and housing related stocks. In August we were buying more conservative preferred shares. We took some profits in our COVID portfolio where we had some large gains in recent weeks. In early September we initiated a position in a mid-cap silver producer, to hedge the uncertainty we believe is increasing, and to get some exposure to silver prices, which have doubled since March.

Investor Contacts:

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

Ed Sollbach
416-601-5607
esollbach@spartanfunds.ca

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

Advisor Contact:

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

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