MM Fund

Spartan Fund Management

March 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%										-28.95%	-20.90%
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

	MM Fund	TSX
Cumulative Return (since inception)	-0.84%	5.37%
Annualized Compound Return	-0.18%	1.12%
1-Year Return	-27.60%	-14.21%
Sharpe Ratio	-0.01	0.09
Avg. Monthly Gain	2.56%	1.88%
Avg. Monthly Loss	-4.79%	-3.03%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	17.03%	12.30%
% of Winning Months	66.67%	64.91%
Correlation	0.82	

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	95.7195
- Class D	99.1569
- Class F	101.1148

*[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 last few weeks have seen everyone's world turned upside down, worldwide. We now have fears, and live in a reality that we maybe only experienced in movies.

We hope everyone is safe and healthy and our hearts go out to everyone effected by this virus. We thank all the doctors, nurses, and front-line healthcare workers that are battling this worldwide plague.

The world has changed in unimaginable ways in just a few weeks. Half the world is on shut down in order to minimize human transmission of the COVID-19 virus. Markets are understandably concerned as to how companies will survive if their revenue drops 90 or 100%?

In terms of the disease, shutting down the economy and social separation seem to be working as projections for total deaths seem to be trending down in the U.S. New York is the epicenter of the outbreak in the U.S., with almost half the total cases, and there is worry the surge in cases will cause its healthcare system to collapse. New York did not have enough hospitals to deal with the surge of COVID patients, so they built 6 temporary hospitals to deal with unprecedented surge in patients.

New cases peaked in New York two days ago, but more importantly those that have the disease seem to be less sick as hospitalizations plunged 75% over the past 3 days. Hopefully these trends continue.
The experts say this will be the worst week in terms of deaths, as infections that started 2 to 3 weeks ago when the economy was shut down, reach their zenith now.

Layoffs and unemployment are also peaking because of the economic shutdown. While the news is seemingly unrelentingly bleak, employees will be recalled as some businesses reopen after we go through the peak of the virus curve. Governments will likely slowly normalize economic activity, while maintaining social distancing. Countries in Asia, like Singapore and South Korea, who battled the virus 2 months ago, have largely normalized their society, with few new virus cases.

We have tilted the portfolio aggressively in the last 2 months to position the Fund for both near-term and medium-term opportunities. We now have 4 categories of investments: bonds (15%), companies that can benefit from the worldwide effort to mitigate the virus (7%), companies that can thrive in the "new normal" with continued social distancing (26%), and gold (10%). It is critical to position the portfolio for the sequencing that will happen as the economy is opened up.

The Fed has responded with QE (quantitative easing) infinity, an almost unlimited liquidity support for markets, where it will buy treasuries, municipal bonds and corporate bonds to inject money into the markets. This "whatever it takes" liquidity program is holding down bond spreads and allowing companies to issue bonds even as their operations are shutdown.

The US government passed a $2 trillion stimulus package, including cheques of $1,200 to every citizen. The legislation also includes extra support for laid off workers, support for small business, and large businesses like airlines and Boeing that have seen their businesses shut down by the travel ban.

These are huge stimulus sums, however, governments need to contain the health crisis first. Once contained, all the monetary and fiscal stimulus will help the economy to recover rather quickly, with huge pent up demand.

We believe unprecedented government response will bridge the economy until it opens up. We have become more bullish, and become fully invested again.

Commentary continued on p. 2 >>>>>

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

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Once people really make social separation a part of their daily lives this is possible. South Korea and Singapore have aggressive testing and social distancing, and their new case remains low, with less than 120 new cases yesterday. People can still work, shop, buy food at restaurants, etc., as long as they do not closely congregate and take safeguards like hand washing, limiting touching of foreign objects and wearing masks. Eventually two at a time in restaurants may be allowed, but unfortunately airline travel, and the NHL and NBA are likely further off. China let businesses reopen once they had enough masks for their workers, and the US is exponentially expanding domestic production of masks and tests.

Vaccines would allow us to quickly get back to normal, but they likely take over a year to develop. Doctors have a number of promising therapies for the 10% of patients that become seriously ill, and the 3% that require hospitalization. Making this virus less deadly and turning it into a normal flu would be a much needed miracle. Anything that can prevent or reduce hospitalization and mortality (about 1.3% in the U.S) would be a godsend and will prevent hospital systems from being overwhelmed.

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. Now stocks like A&W and Pizza Pizza, top-line royalty stocks with little debt, are trading as if no more pizza or burgers will be sold this year. We think these businesses will recover quite quickly as these restaurants can be operated with social separation, and governments work to normalize life while maintaining social separation until a vaccine is ready. Parkland Fuel will refine and sell increasing amounts of fuel as the economy reopens.

Record low mortgage rates should help the housing market once people see that the virus has been controlled. The MM Fund has exposure to real estate through both housing construction stocks and REITs (5.1% of the portfolio). Technology (7%) companies will still have growing businesses once the world normalizes again.

We have created a new sector for the MM portfolio: 26% of the portfolio is now companies that can benefit from the worldwide effort to defeat the pandemic. Gilead is showing promise with their anti-viral drug - remdesivir – which is currently undergoing multiple trials. Most doctors worldwide use a combination of the antibiotic azithromycin and hydroxychloroquine sulfate for early treatment, which Teva manufactures. Protech Home Medical and Viemed are in the business of providing ventilators and oxygen to patients at home, so patients can be treated at home, or move home from the hospital more quickly. LexaGene is commercializing a portable rapid pathogen detection system that works with COVID-19. 23% of Richards Packaging is healthcare: distributing products for disinfecting and testing for infection, masks & gloves and pumps/sprayers for hand sanitizers. Analysts increased their estimates for Richards because of strong sales in healthcare, and the weaker Canadian dollar that helps their US business. Alibaba should continue to benefit as more people move online for shopping around the world, especially with stay-at-home orders. Bragg makes online games that people can use when shut-in at home without sports.

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. Lower 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% position and gold has soared to over $1700 this week, with increased Fed money printing, and prospects for a recovery.

We would like to thank you for your support of the MM Fund during these unprecedented times. In every situation there is opportunity, and we feel that we have re-positioned MM's portfolio to benefit from the new world that COVID-19 has brought us.

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