MM Fund

Spartan Fund Management

May 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%								-5.52%	-9.70%
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)	31.86%	20.28%
Annualized Compound Return	5.83%	3.86%
1-Year Return	-0.14%	-2.11%
Sharpe Ratio	0.30	0.30
Avg. Monthly Gain	3.21%	2.14%
Avg. Monthly Loss	-4.79%	-3.03%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.52%	13.06%
% of Winning Months	67.80%	66.10%
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	127.1341
- Class D	131.8617
- Class F	134.5291

*[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.

Friday’s U.S. May jobs report saw a record 2.5 million new jobs, shocking economists who had predicted a loss of 8 million jobs: a 10.5 million person spread! Not one economist predicted a positive jobs report, and the Dow surged 829 points on the surprise. Unemployment plunged to 13.3% from 14.7%, however it remains at a dismal depression level. Canada is having a slower reopening, but also benefitted and surprised with 290,000 jobs.

The leisure and hospitality sector (restaurants, casinos, etc.) has of course been hardest hit by the shutdown and accounted for half the job gains. Mining/logging adding 670,000 jobs, construction 464,000 jobs and retail 368,000 jobs. One of the unfortunate health consequences of the pandemic, is that with the focus on COVID, many other important health procedures were deferred or neglected, and health workers were laid off. In May there were 424,000 new jobs in health services as the health system returned to normal.

Markets and the economy have been whipsawed by the shutdown of the economy to slow the spread of COVID. In two months the U.S. unemployment rate has rocketed from a 50-year low of 3.5%, to 14.7% in April, the highest level since the Great Depression of the 1930s. May bounced back with 2.5 million new jobs, and June will likely see even more job gains. The U.S. will likely see 1+ million jobs created through the fall, as the economy continues to open up.

In North America, while we have literally flattened the curve, we have not yet seen a significant decrease in new cases like other regions. Daily new cases in the U.S. peaked at 38,000 on Aril 26th and have been steady above 20,000 for almost two months. Canada has finally brought the new case count below 1,000 after almost a 3 month shutdown. Europe is about one month ahead of North America and has been reopening since early May. The daily case counts are generally down over 90% even with the reopening of businesses and schools, and daily new case counts are down to a few hundred in Spain, Italy, Germany and France.

While North America is not yet seeing the decline in reported cases like Europe, we are also not seeing the spike predicted with the reopening.

The bad news is the virus is not disappearing, but maybe we are developing “herd immunity” which will lessen the impact of the dreaded second wave that is more likely to appear in the fall or winter like the seasonal flu.

We believe June will be an even better new month for new jobs as more businesses reopen, however, our fear is that growth will slow dramatically in the fall as some businesses are permanently throttled for health reasons. For instance, airline passengers in the U.S. increased 10% in just the last week but are still down 87% from last year. Unemployment may start to plateau near 10%, still a dreadful number.

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

The MM Fund was aggressively repositioned in February and March for both near and medium-term opportunities that the “new normal” of the pandemic has unfortunately brought us. The Fund 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.

In May, the Fund benefitted from gold and silver, the COVID portfolio, and the reopening portfolio. The COVID portfolio is mainly healthcare, but also includes technology and stay-at-home stocks.

In recent weeks we have been emphasizing the reopening portfolio, where we see the sharpest near term gains, as businesses small and large tentatively reopen. These companies have seen their revenues fall 5 to 75% with the shutdown but are now recovering rapidly as the economy reopens. This includes pipelines (Pembina) and fuel retail/refinery company Parkland that will benefit from increased demand for car driving. Engineering and green companies should still benefit from government support for long term projects and are already almost back to normal. We believe consumers will want to get out of the house and yearn for small luxuries like fast food initially.

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