MM Fund

Spartan Fund Management

September 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%	-2.24%				+8.36%	-3.09%
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)	51.23%	29.08%
Annualized Compound Return	8.27%	5.02%
1-Year Return	16.15%	-0.03%
Sharpe Ratio	0.43	0.39
Avg. Monthly Gain	3.36%	2.21%
Avg. Monthly Loss	-4.66%	-2.99%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.33%	12.86%
% of Winning Months	68.25%	66.67%
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	145.4508
- Class D	151.2313
- Class F	154.4368

*[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."

72% of U.S. voters have serious concerns about COVID. Trump's COVID diagnosis and the outbreak at the White House highlights his lack of leadership in terms of masks and social distancing, and materially diminishes his re-election chances. His focus on speeding therapeutics and vaccines to market will change the course of the pandemic over the long-term and may well save a lot of lives, but not before the election. COVID is the top election issue, so it increases the likelihood of a Democratic sweep of all three houses in the U.S. Markets generally like divided government, and new governments tend to get bad news out of the way early in their terms, and the U.S. had recessions in 1980, 1992, 2000 and 2008 with the change in Presidents. Sizeable corporate and capital gains tax increases are likely. On the positive side the U.S. will likely get a needed infrastructure program for the first time in twelve years, much of it "green" focused. The largest MM position is a TSX green infrastructure company that will benefit from "green" spending worldwide.

Despite setbacks on the virus front in the U.S., the economic recovery from the shutdown continues with a strong 661,000 new jobs in September. However, the pace of the gains is slowing, as the easy non-social distancing hirings have already happened, and the hospitality and travel sector remains throttled with fear. June had a record 4.8 million new jobs, July 1.8 million, and August 1.4 million. Unemployment has plunged to 7.9% - almost half the 14.7% peak of April.

The U.S. manufacturing index at 55.4 continues to suggest strong expansion in U.S. manufacturing as this unusual "stay at home" recovery is all about "things" and less about services. This was near the strongest reading in over one year since January 2019.

Services are more important for the economy, representing 2/3rds of the economy. The services index rose to 57.8 from 56.9, suggesting strong and accelerating growth for the services part of the economy. 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. France spiked to over 17,000 daily cases in October, Netherlands over 4,000, Romania and Poland over 2,000. There are currently severe outbreaks across the Middle East (Iran, Iraq and Israel), and India. The United Kingdom second wave is much worse than the first in terms of case counts with over 22,000 new daily cases this week.

Sweden which avoided the lockdowns and kept schools open has new case counts of a few hundred per day, and has so far avoided the dreaded second wave.

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

The Fund was repositioned in March for the new pandemic world that we thought would be with us for an extended period and now has 4 categories of investments:

1. bonds and preferred stocks (10.5% portfolio weight) where we are "paid to wait" for a vaccine.
2. healthcare and technology companies that we believe can benefit from the worldwide effort to mitigate the COVID virus (33.7% of portfolio weight).
3. companies that we believe can thrive in the "new normal" (58%) with continued social distancing in the re-opening. This includes quick service restaurants, technology, engineering companies and asset managers.
4. gold and silver (13.8%) that continues to benefit from endless deficits and money printing worldwide.

It is critical to position the portfolio, for the sequencing that will happen as the economy is opened up.

Our base case is that the re-opening of the economy will continue, albeit at a slower pace, and we have been emphasizing the re-opening trade with new investments in the spring and summer. However, the vaccine rollout will at best take months to achieve "herd immunity" so the economy will not be fully re-opened until spring 2021. As the re-opening gains slow, we have been taking profits in the "re-opening" and "COVID" portfolios and buying more conservative preferred shares and convertible shares (10.5% portfolio weight) where we are "paid to wait".

We also increased our gold and silver stock position in September. A correction in gold prices from the high of $2,090 to a low of $1,851 hurt our results in September, but we think gold will revisit its highs, benefitting from endless money printing and deficits in countries around the world. In early September we initiated a position in a mid-cap silver producer, to hedge the uncertainty we believe is increasing, and take advantage of silver prices that have doubled since March. Our gold and silver equity weight is now 13.8%.

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