MM Fund

Spartan Fund Management

January 2021

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
2021	+7.38%e												+7.38%e	-0.32%
2020	+0.28%	-7.56%	-23.35%	+19.76%	+11.04%	+4.93%	+8.05%	+3.47%	-2.24%	+2.83%	+11.00%	+11.20%	+37.54%	+5.60%
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)	106.12%	40.20%
Annualized Compound Return	13.93%	6.28%
1-Year Return	47.28%	3.46%
Sharpe Ratio	0.70	0.47
Avg. Monthly Gain	3.77%	2.39%
Avg. Monthly Loss	-4.66%	-2.88%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.89%	13.29%
% of Winning Months	70.15%	65.67%
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	198.2572
- Class D	206.1168
- Class F	210.7317

*[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

The good news is that new virus cases are starting to drop rapidly in most Northern countries. This is partly seasonal, partly herd immunity, and partly because of massive vaccine rollouts. New cases are down about 75% in the U.S. and Canada since the post New Years' peak.

The U.K. has already vaccinated 17% of its population in only 2 months, and the U.S. is at 11.7%. Canada lags behind in the vaccine "race" at 3.1% of the population (40th spot), even as we spent more per capita than any other country. It will be difficult to jump the queue at this point, as other countries secured production and supplies back in May of last year. Rapid tests are the most effective tool at preventing outbreaks in nursing homes, and are of course needed to screen travelers and anywhere people congregate, like workplaces and schools. Rapid tests have allowed contact sports like football, hockey and basketball to resume with surprisingly low case incidence even as community transmission is widespread in the U.S. It is more important to catch the virus early, so that isolation and possible treatment can happen as soon as possible, than to have the gold standard PCR test. The MM Fund is invested in a small company that has a point of care testing solution that can also detect the new strains and is applying for approval in the U.S. and Canada.

The U.S. gained only 49,000 jobs in January, after losing 227,000 jobs in December, as new virus restrictions began to bite, after 6 months of strong post first wave lockdown gains.

The December Manufacturing PMI® registered 58.7 percent in January, suggesting continued rapid expansion in the 'things' side of the economy while services like travel and dining remain throttled. Services are more important for the economy, representing about 2/3rds of the economy. The U.S. services index rose again in January, rising 1 percentage points to 58.7.

Average hourly earnings increased 5.4% yoy in the U.S. in January, suggesting accelerating inflation from wages, while food and commodity inflation is also increasing. Oil prices have more than doubled from the summer to $57, while copper and base metals prices are also at multi-year highs. Since the March lows, the Bloomberg Commodity Index has surged to the highest level in six years.

With the economy about to open and Biden talking about another $1.9 trillion in stimulus spending, there could actually be too much stimulus money injected into the economy.

In 2020, the Trump administration delivered $4.6 trillion in stimulus relief to the U.S. economy. Combined with the $1.9 trillion contemplated, stimulus will be a whopping 30.3% of U.S. GDP. In addition, the Fed has flooded the economy with $3 trillion in liquidity, buoying all financial assets and giving even the weakest of companies borrowing options.

Consumers lucky enough to have jobs, are cashed up and ready to spend as the economy opens up. In the U.S. the savings rate has soared to 13.7%, almost double pre-pandemic levels. Incredibly, bank deposits in the U.S. have leaped almost $3 trillion over the year 2020, despite the surge in stock markets, in the midst of the worst recession in 90 years.

The Congressional Budget Office is expecting 4.6% U.S. GDP growth in 2021, the highest growth since 1999. We believe an additional $1.9 trillion stimulus package would push growth well over 5%.

Even with large sectors of the economy throttled, U.S. unemployment has been more than halved to 6.3% in seven months, with a partial reopening. So, we expect with a full reopening, unemployment will trend toward 5% which represents full employment and is the Federal Reserve's target. The Congressional Budget office forecasts 5.3% by year end and new Treasury Secretary Yellen expects that the $1.9 trillion stimulus plan could push the U.S. to full employment in 2022.

We could have a huge boom this summer with the combination of stimulus spending, reopening of the services sector, the spending of accumulated savings. Investors are also becoming optimistic for the new year as S&P 500 earnings estimates for 2021 have crept up 5% since September. Investors now expect a record $171 earnings for 2021, with earnings accelerating to 35% growth by Q4. Q421 earnings annualized would be $186. The energy sector will have the most dramatic earnings rebound, followed by the industrials sector, communication services, materials, health care, consumer staples, with information technology and financials lagging and tied with a rapid 25%.

We expect bond yields that have already doubled to over 1% from the lows in April, to double again this year to the 2% level that they were a year ago before the pandemic. The Fed will have to pull back on its extraordinary stimulus (money printing) as the U.S. economy approaches full employment, where inflation risks become more pronounced. We are also seeing rising inflation worldwide, as consumers spend massively on "things" and housing instead of services, which are restricted. Pandemic measures are also making it more expensive to produce goods and services, increasing inflation.

We are positioning the portfolio for rising inflation and rising bond yields by reducing growth positions, and increasing cyclical and financial positions in the "reopening" portfolio. Over the last month we sold out of and took profits in two small capitalization Covid healthcare stocks, and a technology stock, reinvesting the profits in more prosaic copper, energy, and an insurance stock.

For now, we continue to emphasize the reopening trade with the vaccine rollout, with a focus on inflation protection through financials and commodity stocks.

On a personal note, we have chosen to use the Covid downtime as an opportunity to give local teens a real education in personal finance – feel free to read and share the attached report with friends and family.

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