M$M Fund

Spartan Fund Management

February 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%	+6.55%											+14.41%	+4.03%
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)	119.62%	46.32%
Annualized Compound Return	15.03%	7.01%
1-Year Return	69.76%	14.74%
Sharpe Ratio	0.76	0.53
Avg. Monthly Gain	3.83%	2.43%
Avg. Monthly Loss	-4.66%	-2.88%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.87%	13.29%
% of Winning Months	70.59%	66.18%
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	211.1141
- Class D	219.6208
- Class F	224.5422

[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

We have good news and bad news for our dear investors. The good news is that Canada finally is getting some vaccines and we hope to get back to the "old normal": in coming months.

We believe 2021 is all about a worldwide vaccine rollout, that is progressing incredibly quickly in some countries. As the population becomes vaccinated, a full reopening of the economy, especially throttled service sectors like restaurants and travel is possible.

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 in early March are down about 85% in the U.S. and 75% in Canada since the post New Years' peak. Some countries like Israel, and U.A.E. have already vaccinated most of their population, the U.K. has already vaccinated 36% of its population in early March, and the U.S. is at 29% (95.7 million doses). Unfortunately, Canada lags behind at 4.3%, but there will be lots of vaccine available after the U.S. is done in May. Most importantly, with the vaccinations of the older cohort almost complete in the U.S., deaths are down 85% from their peak in early February.

Throughout my career I heard the phrase "strategy doesn't pay the bills" but in 2020 the correct strategy certainly did. We were able to quickly take advantage of the unique opportunities offered up by a (hopefully) 100-year pandemic one year ago. In terms of the Fund we have been up 11 months in a row, gaining 14.4% this year, following 37.5% in 2020.

The bad news for investors is that as good news on the virus and economy accelerate in coming months, markets will normalize, and interest rates will rise pressuring valuations.

The ISM Manufacturing Index for February jumped to 60.8, the highest level since May 2004. Moreover, the Prices Paid index jumped to 86, the highest level since 2008, suggesting strong inflation pressures. The more important ISM Non-Manufacturing index fell to 55.3 from 58.7 in January, amid winter storms. However, the Prices Paid component zoomed up 7.6 points to 71.8, the highest level since September 2008, when oil prices were pushing above $100. Even amongst continuing lockdowns, the U.S. economy created a better than expected 379,000 jobs in February, and the unemployment rate ticked down to 6.2%. Average hourly wages were up 5.5% year-over-year.

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. As the economy trends toward full employment the Federal Reserve will have to taper quantitative easing (money printing) and eventually raise rates.

Oil prices have more than doubled from the summer to over $66 in March, while copper and base metals prices are also at multi-year highs. The Bloomberg Commodity Index has surged from the lowest level to the highest level in six years, since the March lows.

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. Bank deposits in the U.S. have leaped almost $3 trillion over 2020, despite the surge in stock markets.

The U.S. injected $4.2 trillion in stimulus spending into the economy in 2020 and pushed the unemployment rate down to 6.2% in February, from a high of 14.7% in May. With the economy about to open as 29% of the U.S. population has already been vaccinated, and with Biden's additional $1.9 trillion stimulus spending bill there could actually be too much stimulus money injected into the economy. Economists are now expecting 6% growth in 2021, the highest level since 1983.

Bond yields had doubled from the August lows to 1% by year-end 2020, and our forecast for the year 2021 was that interest rates would double again to the 2% level they were a year ago before the pandemic. The Fed controls short duration interest rates (t-bills) through the Fed Funds rate, but long bonds are still subject to markets, despite the holdings of $4.2 trillion dollars of bonds on the Fed's $7.5 trillion balance sheet. Markets are starting to price in a post-pandemic world with the vaccine rollout and the opening up of the throttled travel and leisure sectors. We are also seeing rising inflation worldwide, as consumers spend massively on "things" and housing, as services are restricted. Pandemic measures are also making it more expensive to produce goods and services, increasing inflation.

While we expected rates to rise in 2020, we were surprised at the speed of the adjustment as bond yields rose to 1.6% by the first week of March. Rising interest rates reduces the future value of cash flows and this will pressure valuations, particularly for high growth (technology usually) companies, with sky high valuations. Their high valuations are backstopped by low discount rates that increase the value of very optimistic future earnings projections. The high technology Nasdaq index tumbled 10.3% over twelve sessions, while other high growth bellwether names like Tesla, Zoom and Peleton are down over 30% with the spike in yields.

Going forward, the year-over-year earnings and revenues comparables for the "COVID shutdown", names like Amazon, Zoom, and Peleton, will become less favorable as we lap last year's initial spectacular growth from the first shutdown. However, the comparisons for the "reopening" companies will now become spectacular as we lap last years' hard shutdown, compared to the gradual full reopening with vaccines. Companies that were shutdown last year, like some retailers, restaurants, airlines, travel, etc. should show strong growth for the next year as they lap the COVID shutdowns.

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 (56%). In January and February, we sold out of and took profits in healthcare stocks, a technology stock and a green energy company, reinvesting the profits in more prosaic copper and energy stocks, an asset manager, a restaurant stock, and an insurance stock. Most of these stocks also pay healthy dividends. We are not quite done in this process, and we will continue to shift from the "covid" stocks to the "reopening".

We are still optimistic about our "reopening" portfolio (56%) and companies that benefit from rising interest rates and inflation. We continue to emphasize the reopening trade with the vaccine rollout, with a focus on inflation protection through financials and commodity stocks.

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