MM Fund

Spartan Fund Management

May 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%	+0.57%	+1.92%	-0.47%								+16.72%	+14.44%
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)	124.06%	60.98%
Annualized Compound Return	14.71%	8.44%
Last 12 Months Return	69.92%	33.83%
Sharpe Ratio	0.76	0.64
Avg. Monthly Gain	3.72%	2.48%
Avg. Monthly Loss	-4.46%	-2.88%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.45%	13.13%
% of Winning Months	70.42%	67.61%
Correlation	0.81	

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	214.9466
- Class D	224.0583
- Class F	229.1923

*[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 ISM non-manufacturing index, that represents about 75% of the U.S. economy, hit another record high in May at 64%. Many respondents complained about labor shortages, and the prices index increased to 80.6% the highest level since 2008.

The U.S. created a below expectations 559,000 jobs in May, and the unemployment rate fell 0.3 points to 5.8%. Restaurants and bars reported the largest increase at 186,000 jobs, and we hope to repeat that in Canada with our delayed vaccine rollout. Still even with vaccines, $6 trillion in “stimulus” and $4 trillion in money printing, the U.S. is nowhere near full employment as the total number of jobs is still about 7.6 million below pre-pandemic levels. But the problem is not demand but supply, as many employers are reporting problems enticed furloughed workers to give up enhanced unemployment benefits, even with increased wages. Job openings for April increased by 1 million to a record 9.2 million up from 6.7 million at year end, showing the economy is opening up faster than employees are coming back.

U.S. prices rose 5% in May, the highest rate since 2008, from the pandemic lows of a year ago. Even without food and energy (which everyone still needs), prices were up 3.8% year-over-year, the highest since 1992. The Fed’s preferred inflation gauge, the PCE price index, was also above expectations as it climbed 0.6% in April and is now up 3.1% from a year ago. U.S. bond yields have been pushed down by $4 trillion in Fed purchases. At 1.5%, bond investors are losing a whopping 3% per year to inflation so they are not being compensated for rising prices. Even with high inflation and labor shortages, Biden has a $1.9 trillion “infrastructure” plan cued up to add fuel to the fire. Biden’s Treasury Secretary - Janet Yellen - even signaled higher rates when she argued that higher rates would be a good thing. While higher rates are great for savers, we fear that higher rates will wring liquidity and speculation from the market, hurting high multiple growth stocks the most.

Earnings are up strongly to record levels for the S&P 500 as most of the U.S. economy is now open, versus pandemic-closed a year ago. For the year, 2021 earnings are expected to be a record $187 according to bottom-up forecasts, with another 12% growth expected in 2022.

The financials and energy sector are showing the strongest growth from last year. Banks took pre-emptive expected loan losses a year ago, that did not materialize with all the government stimulus for consumers. The energy sector was devastated by negative oil prices a year ago with the shut down economy but is now benefitting from $70 oil. For 2021, the reopening sectors, energy, industrials, and materials are expected to show the strongest S&P 500 earnings growth.

7.7% of the portfolio is bonds, and 6.5% is gold and silver stocks that are benefitting from the $200 increase in gold prices this spring.

We still believe in the long-term worth of the remaining Covid (20.5%) portfolio, that is comprised of ‘growth at a reasonable price’ companies: a couple of large pharmaceutical companies, a couple of health care service companies and a gambling company. Unfortunately, in May, losses in that part of the portfolio pushed the total portfolio to a slight loss, but these stocks have bounced back strongly in recent days.

The “reopening” portfolio has increased to 65.5% of portfolio weight from 56% at the end of February as we continued to add to our reopening holdings in May (mining, energy, travel and real estate) while reducing our Covid and technology holdings.

With rising rates and high multiples, upside for markets is surely limited versus the Covid lows of a year ago. We have increased our core holdings to 51.3% versus 31% at year end, where we are “paid to wait” with dividends. We like to let winners run, and opportunistically take advantage of anomalies, as we did in 2020, but over the long term we aim to have 50% of the portfolio invested in the safer, less speculative “core”.

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