MM Fund

Spartan
Fund Management

December 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%	-1.29%	-1.97%	+1.23%	-1.05%	+3.56%	-3.27%	+1.26%	+14.76%	+25.09%
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)	120.29%	75.95%
Annualized Compound Return	13.00%	9.14%
Last 12 Months Return	14.76%	25.09%
Sharpe Ratio	0.69	0.72
Avg. Monthly Gain	3.63%	2.49%
Avg. Monthly Loss	-4.05%	-2.80%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	18.75%	12.78%
% of Winning Months	67.95%	67.95%
Correlation	0.80	

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	210.4252
- Class D	220.2882
- Class F	225.7161

*[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 December unemployment rate disappointed again with only 199,000 jobs, the lowest since last December and less then half the expected number. Still the unemployment rate tumbled to 3.9% from 4.2%, as the participation rate was flat, and the "great resignation" continues because of Covid, and Covid rules. The labor force participation rate at 61.9% is 1.5% lower than February 2020, as workers are not coming back with the strength in the economy. A lower participation rate suggests a lower potential for the entire U.S. economy as a record 11 million jobs are unfilled.

Tightening labor markets has increased demand for workers, pressuring wages that surged 0.6% - good for workers, but increasing pressure on inflation and prices. Wages are up 4.7% from last year, but still well short of inflation at 7%, the highest in 40 years. Workers will be demanding higher wages still, just to keep their standard of living steady. Such is the perniciousness of the inflationary cycle, as employers will then try to pass those higher wages onto their consumers.

December's ISM Services survey plunged to 62.0 from 69.1, but is still at a very expansionary level, and the same level of services growth since September. Even with the sharpest drop since April 2020, the prices paid index edged up to 82.5 from 82.3. Most commodities were up in price, and only dairy and gasoline (temporary!) fell.

Markets were shocked Jan. 5th when Fed minutes suggested that Fed rate hikes would come sooner than expected in March, as the Fed finally, and belatedly, gets serious about fighting "transitory" inflation.

Moreover, the Fed also wants to start shrinking the balance sheet (quantitative tightening) by mid-year - sooner than expected. The Fed balance sheet doubled during the pandemic to almost $9 trillion, as the Fed bought trillions in treasuries and mortgage bonds, and reducing the balance sheet would withdraw stimulus and liquidity in markets. This is another u-turn for the markets as the Fed was expanding its balance sheet aggressively (quantitative easing) by $120 billion per month for the last year, and only announced a gradual taper in QE at the November meeting. The 3.9% unemployment rate and 4.8% annual wage increase green lights Fed rate hikes in March, and quantitative tightening in June.

Even as Omicron is raging, most economies are not locked down, suggesting growth and the reopening theme will continue. Thankfully hospitalizations are less than with previous strains, and data from South Africa, and now England suggests the wave may crest this month in North America. Hopefully this will be the last wave, and we can finally have a full and lasting reopening. However widespread staff shortages, because of sickness, fear and mandates, is also pressuring wage inflation.

9.5% of the portfolio is outside of the equity sector in convertible and preferred stock where we are paid to wait. 28% of our equity portfolio pays more than a 4% yield, and these dividends are rising with the reopening and rising commodity prices.

Yields rocketed up since mid-December with rising inflation worries, rising 40 bps in less than a month, pressuring stock valuations, particularly high-priced Nasdaq stocks.

The MM Fund has only an 8.3% technology weight, versus a record 29% for the S&P 500. The top 5 companies in the S&P 500 - Apple, Microsoft, Amazon, Tesla and Alphabet - comprise 20.6% of the S&P 500 and accounted for all of the S&P 500 positive performance in 2021, while small and mid-cap companies got left behind. The return for the "S&P 495" was zero in 2021.

So our zero weight in large capitalization technology stocks, and underweight technology in general hurt our relative performance in 2021, but helped the MM Fund outperform and stay steady in the first week of January when the Nasdaq fell 4.5%.

Information technology was also the best performing sector for the decade ending December 31/2019 with a 402% gain. However, when a sector outperforms over a long period, it tends to gain a lot of performance-chasing funds, and is prone to underperformance in the following years as performance returns to the mean.

We continue to be positioned for the reopening and inflationary themes. 18.1% of the portfolio is invested in energy companies. We expect energy producers to show strong growth in profits in 2022, as oil prices rose 60% in 2021. The next biggest sector is materials at 16.2%, that consists of 6.3% in copper companies, 5.4% in gold companies, a dividend-paying rare earth company and a growing packaging company. Copper prices increased 24% in 2021, and gold prices are creeping towards $2,000, as gold has 1000s of years of history as the best inflation hedge. Industrials is the third biggest sector at 14.1% with an urban engineering company, a forestry company, and a transformer company targeting electric vehicles and renewables. 10.8% is invested in financials that have benefitted from the 40 bps rise in bond yields since mid-December. We also own fast food royalty companies whose royalty dividend payment rises as price increases are passed on to consumers.

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