MM Fund

Spartan Fund Management

January 2022

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
2022	-1.16%												-1.16%	-0.41%
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)	117.73%	75.23%
Annualized Compound Return	12.63%	8.95%
Last 12 Months Return	5.64%	24.98%
Sharpe Ratio	0.68	0.70
Avg. Monthly Gain	3.63%	2.49%
Avg. Monthly Loss	-3.94%	-2.71%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	18.65%	12.70%
% of Winning Months	67.09%	67.09%
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	207.8551
- Class D	217.7338
- Class F	223.1532

*[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

Rising inflation continues to be the focus of the markets. January inflation again came in hotter than expected at 7.5%, the highest inflation rate in 40 years, driving bond yields to 2%, the highest level in 2 1/2 years. Inflation is rising globally, but record fiscal and monetary stimulus in the U.S. means that its inflation rate is behind only that of Turkey and Brazil.

And there is more to come, as unemployment is near 50-year lows at 3.9% so workers have the leverage to demand higher wages. Wages surged in January, rising 0.7% for the month and 5.7% for the year. But wages are still not keeping up with inflation and companies must pay more to keep scarce workers. For instance, Wisconsin-based Midwest Carriers announced a 9% pay increase for its truck drivers.

Oil prices have surged 40% over the last two months, affecting transportation prices for everyone, as well as the prices for all goods that must be transported. Natural gas prices increased 24%, affecting everyone's heating costs and pressuring electricity prices as well. MM Fund's largest sector is now energy at 21%, and many of these companies are now highly profitable and instituting share buybacks or increasing dividends.

Supply chains are buckling under increased demand and worker shortages because of sickness and mandates. So the inflationary spiral that the Fed ignited with unprecedented money printing continues, and must now be tamped down with rate hikes and the withdrawal of stimulus.

Rates at zero are ridiculously low compared with 7% inflation, incentivizing everyone to borrow and spend before prices rise even higher. The Fed is way behind the curve in terms of slowing inflation, so it is no surprise that expectations for rate hikes and tightening have risen dramatically.

The market is now expecting aggressive Fed action with 5 to 6 rate hikes in 2022, along with quantitative tightening instead of the $120B per month in quantitative easing, or money printing, that we've had for the last two years. From May 2022 to May 2023, Morgan Stanley economists expect G4 central bank balance sheets to shrink by US$2 trillion, and this withdrawal of liquidity likely will pressure stock and bond valuations.

Expectations for a dramatic U-turn in Fed policy caused increased market volatility in January and is pressuring valuation multiples. Oil prices surged 17% in January and bond yields were up 19 bps, pressuring the S&P 500, which fell 5.3%, but the high valuation technology laden NASDAQ tumbled the most at -9%.

We are about half-way through the S&P 500 earnings season and 76% of companies have beaten estimates, which is about equal to the five-year average of earnings beats. So far, earnings are up about 29%, the fourth straight quarter with earnings growth above 25%. The last time there was such rapid earnings growth was during the rebound off the great recession in 2009. The highest earnings growth is coming from the energy, industrials and materials sectors.

For the full year, the blended earnings growth rate for 2021 is a massive 47.0%, as 2021 was the reopening year off the pandemic lows. However, going forward we see a sharp deceleration, as analysts expect earnings growth of 5.6% for Q1 2022 and 4.4% for Q2 2022. The energy and industrials sectors are expected to see the sharpest earnings growth in '22.

The forward 12-month P/E ratio is 19.7, which is above both the five-year average (18.6) and the ten-year average (16.7). However, it is below the forward P/E ratio of 21.3 recorded at the end of the fourth quarter (December 31, 2021), as prices have decreased while EPS estimates have increased over the past month. Our companies have only started reporting in the last few days, and earnings so far are beating expectations, and being warmly received by investors.

We were pleased that the combination of our low technology exposure (Micron is our only U.S. technology name, and it is more of a value play, with a forward PE of only 9.3) and our focus on energy, value, bonds (9.7%) and stocks where we are "paid to wait" allowed us to outperform the S&P 500, NASDAQ and Dow in January, and turn positive for the year in early February.

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