MM Fund

Spartan Fund Management

April 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%	+2.92%	+2.19%	-4.82%									-1.05%	-1.33%
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)	117.97%	73.60%
Annualized Compound Return	12.16%	8.46%
Last 12 Months Return	-3.17%	11.56%
Sharpe Ratio	0.66	0.67
Avg. Monthly Gain	3.59%	2.48%
Avg. Monthly Loss	-3.97%	-2.79%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	18.46%	12.72%
% of Winning Months	67.07%	67.07%
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	207.7355
- Class D	217.9750
- Class F	223.5826

*[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 won't give you a stream of happy talk after the month of April, the most difficult for investors since the first pandemic month in March 2020. The combination of rising rates and slowing growth is extremely difficult for equity investors and for most asset classes.

The NASDAQ suffered its steepest one-month decline (-13.24%) since October 2008, with April ensuring the S&P 500 Total Return Index is off to its 3rd worst year-to-date in history (-12.92%), with only the auspicious years of 1932 and 1939 having been worse. April was also a down month for US bonds (-4%), and they are also down for the year (-9.6%). There are very few places to hide from this bear, as the only asset classes up in April and the year are commodities, gold, and the US Dollar.

Bond prices fall when yields rise. Year-to-date, bond yields have exhibited their fastest rise since 1994. Since year-end, this repricing has pushed up the rate on a U.S. 30-year mortgage by 235 bps to 5.41% and we are starting to see cracks in the housing market, the bulwark for consumer wealth.

Unfortunately, rising inflation continues to be the focus for markets. Inflation in April came in at a hotter than expected 8.3%, near a 40-year high, and inflation prints will continue to be high as food prices continue to surge, and gasoline and diesel prices have hit record prices in May. Natural gas prices have moved up 25% over the last few weeks, as Europe scrambles for non-Russian LNG, and given the ubiquitous use of natural gas for heating, electricity generation, and industrial uses, these prices will also pressure broader prices in the next few weeks.

The Fed is now aggressively tightening monetary policy to slow inflation, with 50 bps rate hikes, and balance sheet reduction, but it is a year too late, so we are in a vicious cycle of high inflation and Fed rate hikes that will not end until a slowing economy or recession causes inflation to plummet. Markets are currently pricing in ten 25 bps rate hikes by the Fed this year.

But now a war in Europe is exacerbating commodity shortages, and supply chain disruptions. Like most fights and wars, we believe the carnage and suffering from the war far outweighs "the issues" over the long term, and we can only hope for serious peace negotiations. Unfortunately, peace advocacy is suddenly a lonely position, and, the two major combatants, the U.S. and Russia, are in a media war, and have not even had any conversations since the war began 3 months ago, and continue to escalate and increase tensions by pouring money and armaments into Ukraine.

The U.S. economy continues to create jobs; however, the effects of 3 rate hikes and record gasoline and diesel prices is only now affecting longer term spending decisions because monetary policy typically works with a 6 to 9 month lag.

Despite these headwinds, earnings for the S&P 500 still grew 11% in Q1, better than expected, with the strongest growth in the energy and materials sectors.

We forecast oil and natural gas prices averaging US$105 and US$6.00 respectively during 2022, partially due to the war in Ukraine, but also the global reopening. Even with the strong run up in the energy sector, valuation multiples are still low with the doubling of oil and natural gas prices. Energy is the largest sector for the MM fund with a 26% weight. Our energy holdings comprise of oil producers, an international oil company receiving Brent pricing, a natural gas producer, and more defensive pipeline, refining and mid-stream companies.

Even in this extremely difficult environment, we had nice +20% gains over the last month in two small caps, of all places: a transformer company that is helping with the electrification of the economy, and a specialty finance company. We continue to increase our exposure to stable dividend payers where we are "paid to wait". Historically dividend payers outperform in bear and down markets, and 3 of our companies have raised their dividends over the past month. The Fund also has a record 10.1 % fixed income position consisting of high yielding corporate bonds and preferred shares. They have generally held up this year, despite the sharp corrections in equities. Finally, given the devastation in the growth area, in the last few days we have begun cautiously increasing our weighting in the companies that are growing strongly at +20% in a slowing economy.

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