MM Fund

Spartan Fund Management

May 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	-1.14%	+2.95%	+2.21%	-4.78%	+0.92%								-0.04%	-1.28%
2021	+7.45%	+6.55%	+0.57%	+1.94%	-0.44%	-1.26%	-1.95%	+1.25%	-1.02%	+3.58%	-3.25%	+1.29%	+15.09%	+25.09%
2020	+0.30%	-7.54%	-23.34%	+19.79%	+11.07%	+4.95%	+8.08%	+3.50%	-2.21%	+2.85%	+10.98%	+11.25%	+37.90%	+5.60%
2019	+8.01%	+7.55%	+4.14%	+0.83%	-4.33%	+1.10%	+0.95%	-4.72%	+1.49%	+1.76%	+3.43%	+1.91%	+23.54%	+22.88%
2018	+0.20%	-2.07%	-1.86%	+1.99%	+1.54%	-0.22%	+0.29%	-1.24%	-1.29%	-9.57%	-4.79%	-6.07%	-21.32%	-8.89%
2017	-0.72%	+1.54%	+0.68%	+5.44%	+4.30%	+1.41%	-1.65%	-0.67%	+1.45%	+2.38%	+2.80%	+0.61%	+18.79%	+9.10%
2016	-6.98%	+5.47%	+4.15%	+0.68%	+3.53%	+0.50%	+0.97%	+5.78%	+3.49%	+3.17%	+1.08%	+1.73%	+25.52%	+21.08%
2015							-2.26%	-7.08%	-4.17%	+7.06%	+3.69%	+1.56%	-1.87%	-9.93%

Statistics[1]

	MM Fund	TSX
Cumulative Return (since inception)	125.63%	73.70%
Annualized Compound Return	12.56%	8.36%
Last 12 Months Return	-1.55%	7.91%
Sharpe Ratio	0.68	0.66
Avg. Monthly Gain	3.57%	2.44%
Avg. Monthly Loss	-3.95%	-2.79%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.34%	12.65%
% of Winning Months	67.47%	67.47%
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
'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	209.4599
- Class F	225.6346

[1] *Performance numbers are net of management and performance fees for the period commencing July 15, 2015 for the Class F 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 Federal Reserve raised the target for the Fed Funds rate by half a point to 0.75% during its May 2022 meeting, the second consecutive rate hike and the biggest rise in borrowing costs since 2000, aiming to tackle soaring inflation. CPI inflation hit a 40 year high of 8.3% in April and is likely to push higher with recent increases in food and gasoline prices.

The market expects 7 more rate hikes by year-end, which will further slow the economy and pressure equity valuations. However, there is so much momentum from all the pandemic fiscal and monetary stimulus that the economy keeps grinding along, meaning the Fed must do more work to slow the economy. The Fed balance sheet doubled during the pandemic to $9 trillion, as the Fed bought trillions in treasuries and mortgage bonds. In addition, there was $6 trillion in stimulus for consumers and business from the federal government. Now, we are paying for all that excess with runaway inflation.

The May jobs report was good with 390,000 new jobs in the U.S. The May ISM manufacturing index at 56.1, and services at 55.9 suggest continued growth in the economy. But continued good news on the economy means the Fed must be more aggressive with its tightening.

Generally, with commodities the cure for high prices is high prices, which stimulates investment and new production. However, when the second biggest oil and natural gas producer (Russia) is off-line, it will take years of investment to make up for 13.1% of global oil production. Unfortunately, the only way to slow wage growth is to make people fearful about their future by slowing the economy dramatically, so they will accept less. Often these tightening cycles result in recessions (1990, 2000 and 2008), while other times when the Fed is less aggressive (1986, 1994, 2004 and 2017) we have a mid-cycle slowdown.

MM Fund continues to benefit from exposure to energy in all forms: pipelines, mid-stream, refining, oil, international, natural gas and oil services. In addition, the Fund benefitted from more aggressive profit taking this year, and some nice wins amongst small capitalization companies. Energy is now the largest sector in the fund with a 28% weight, up from 8.7% at the end of 2020.

While the sector has outperformed this year, it is still cheap with about a 25% free cash flow yield. How long to stay at the party is the critical question. Valuations are still the cheapest since 2008 on a price-earnings basis as cash flows have gone up more than prices. But in 2008, the sector peaked with $130 oil, and then promptly crashed with the global financial crisis.

The stocks still do not reflect the recent explosion in margins as oil prices are up 60% this year, while natural gas prices have more than doubled. This cycle, the companies are more disciplined with the windfall, and using their cash to aggressively raise dividends, and buy back their own shares. While the energy sector is the best performing sector this year, we'd note that the market capitalization of the entire S&P 500 energy sector, that powers the grid, heats home and fuels our cars and planes is still less at $1.7 trillion than either Apple or Microsoft alone.

The world has underinvested in fossil fuels in recent years, and we are finding out that, despite our fervent wishes, the world is still heavily reliant on reliable and relatively "cheap" fossil fuels, and likely will be for a long time. Even if the woke West transitions to "net-zero" we would point out that the rest of the world accounts for 65% of oil consumption, and their consumption is only increasing. The International Energy Agency projects non-US/Canada/Europe consumption to increase 3% in 2022. For the medium-term, oil and natural gas prices will likely move higher as long as Europe shuns Russian energy with "forever war", and it will take a few years of higher prices to force the combination of increased fossil fuel investment, and demand destruction to make up the shortfall.

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