MM Fund

Spartan Fund Management

September 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%	-9.33%	+6.18%	-2.52%	-6.53%				-12.32%	-11.14%
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)	97.91%	56.35%
Annualized Compound Return	9.93%	6.40%
Last 12 Months Return	-11.00%	-5.39%
Sharpe Ratio	0.53	0.49
Avg. Monthly Gain	3.62%	2.47%
Avg. Monthly Loss	-4.17%	-3.00%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.69%	13.08%
% of Winning Months	65.52%	65.52%
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
'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	183.0903
- Class F	197.9051

*[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

2022 continues to be a volatile year, with the kind of negative volatility most investors don't enjoy. Thus far in 2022, the S&P 500 had 97 days of greater than 1% moves, compared to 109 in the pandemic/election year of 2020.

The bear market continues to ravage most assets. The S&P 500 has fallen 25%, the fourth worst year on record. The high technology NASDAQ has lost one third of its value. But there is also no safe haven in bonds, as treasuries have fallen 17%, the worst year on record. Since WWII the S&P 500 has only fallen 20% in 3 years:1972, 2002, and 2008. The good news is in the following years it gained 31.5%, 26.4%, and 23.5%.

The Fed is fighting 8.3% inflation, the highest inflation in 42 years, with the most aggressive tightening in over 40 years. In only 6 months the Fed has raised rates by 25 bps, 50 bps, and three monster 75 bps rate hikes.

Rate hikes are slowing the economy quickly as the September manufacturing ISM fell 1.9% to 50.9, suggesting the manufacturing sector is no longer growing. The new orders index at 47.1 suggests rapid contraction of the manufacturing index is coming. However, the services index that comprises over 2/3rds of the economy is still growing with a reading of 56.7, as the pandemic reopening and pent-up demand drives demand for in-person services.

The growing service sector means that the US economy continues to grow jobs - 263K in September. Recent job growth is driven by 83K jobs in leisure and hospitality, as people are getting out after a two year pandemic lockup. However, this sector is surprisingly still 1.1 million jobs short of pre-pandemic levels, showing further job growth there is possible. But the strong jobs market and low 3.5% unemployment, means workers feel confident to ask for higher wages. This is driving inflation higher even as gasoline and other commodity prices have receded.

Because of the strong jobs market, the Fed is expecting the Fed to raise rates another 75 bps on November 2nd. Cash had zero yield 6 months ago, but the expected 400 bps rise by the Fed changes everything for markets. Ten year bond yields have more than doubled to almost 4%, from 1.5% at the beginning of the year, causing severe losses in the bond markets. The ten year bond yield is used by most investors to discount future earnings, so stocks are worth less, particularly high growth NASDAQ stocks where investors are waiting for higher expected earnings, far in the future.

October Is a scary month for investors, as it is generally volatile, and 3 of the 4 largest daily corrections happened in October, including October 1987 (-22%), and October 1929. Hopefully, October will live up to its reputation as a "bear killer". According to Oppenheimer, 45% of market bottoms occur in October, far more than any other month.

So, we are looking to become more aggressive in our more speculative "more" portfolios, once we think the Fed is nearing a pause in its aggressive rate hikes. The "more" consists of more "speculative" equity and debt, plus securities like warrants and small and micro capitalization stocks, that will likely have more volatility but a higher potential for capital gains in bull markets, so we want to aggressively increase the "more" again, once we believe a new bull market has started. The "more" is currently at a record low of 23% of our portfolio.

The "core" yield portfolio has more than doubled to 68.1% from 29% at year end 2020, and 63.6% in June of this year. The core portfolio consists of sustainable high yielding or dividend paying equities, and to a lesser extent, real estate investment trusts, convertibles, debt securities, preferred shares, and U.S. equity securities that we hope to hold for many years, as long as our investment thesis holds true.

The Fund is currently defensively positioned with an 8.9% cash position, and a 9.8% bond position where we are "paid to wait". In addition, the Fund has a 5.4% non-market correlated risk arbitrage position, where the fund can see nice gains when takeover deals close. We look to the U.S. for investment ideas not available on the TSX: 7.1% is allocated to mega-cap U.S. equities: Micron, Teva, Ford, and Twitter.

Biden is emptying the U.S. strategic petroleum reserve (SPR) by 1 million barrels per day to push down gas prices ahead of the mid-term elections. The SPR is meant to be a backup supply of energy to be used in times of war or real crisis, but it has already been half emptied by Biden this year. Despite pleas to the contrary, OPEC+ offset these supply increases with 2 million barrels per day supply cuts, pushing oil prices higher. The Fund benefitted from a $15 rise in oil prices in two weeks to $92, at the end of September, and was up 4.2% the first week of October. Energy is the largest sector for the Fund at 23.9%, and MM Fund has exposure to energy in all forms: pipelines, mid-stream, refining, oil, international, natural gas and energy services. Earnings for the S&P 500 are expected to be up 4.1% in Q3, but without the strong profit growth from the energy sector earnings are down 2.6%.

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