MM Fund

Spartan Fund Management

March 2023

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
2023	+8.37%	-1.63%	+0.54%										+7.18%	+4.55%
2022	-1.14%	+2.95%	+2.21%	-4.78%	+0.92%	-9.33%	+6.18%	-2.52%	-6.53%	+8.34%	+0.98%	-3.18%	-7.13%	-5.84%
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)	124.67%	73.22%
Annualized Compound Return	11.07%	7.38%
Last 12 Months Return	-4.32%	-5.17%
Sharpe Ratio	0.60	0.55
Avg. Monthly Gain	3.68%	2.66%
Avg. Monthly Loss	-4.06%	-2.95%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.54%	13.32%
% of Winning Months	65.59%	64.52%
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	206.7930
- Class F	224.6697

*[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

March was dominated by the news of bank runs and bank failures. Silicon Valley Bank and Signature failed in the US, and Credit Suisse needed to be rescued by UBS. The banks are mainly victims of their own cheapness, as they like to pay nothing for deposits. Customers are pulling their deposits and buying t-bills to get over 200 bps more yield.

The US government bailed out uninsured depositors and the Fed added a liquidity window for the banks. These measures seem to have slowed the bank run but the Fed didn't fix the fundamental problem, and even added to it by raising rates a further 25 bps. The Fed has raised rates by 475 bps over the last year, the fastest pace in history, in order to slow the economy and bring inflation back to its 2% target.

Thankfully the MM Fund currently has no banks and the financial sector, at 13.4%, is very underweight the TSX at 31.7%. Most real estate purchases are financed with leverage so this sector's valuations are hurt by rising rates. We sold down our small real estate exposure to zero in March. Despite these headwinds, the US economy continues to create jobs. 236K jobs were created in March, and unemployment fell to 3.5% from 3.6% in February. The reopening continues as about 1/3rd of jobs were in the leisure and hospitality services. Notably this sector is still 2.2% below pre-pandemic February 2020 employment levels.

The Fed was successful in lowering wage growth as hourly earnings grew 4.2% yoy, down from 4.6%. The Fed's inflation target is 2%, but productivity growth allows wages to grow 1-2% faster, so that wage inflation is getting close to acceptable levels.

Prices in March were up 5% from a year early, so Fed tightening has reduced inflation almost in half from a high of 9.1%. However, services inflation (70% of US economy) is still stubbornly high at 7.1%, versus goods inflation that has tumbled to 1.5%, as the economy shifted from goods to services post-pandemic.

The ISM manufacturing index tumbled to 46.3 the lowest level since the 2008 financial crisis. The manufacturing sector has been in contraction for five straight months according to ISM. ISM services, accounting for 70% of the US economy, plunged to 51.2 from 55.1.

Consumers have used credit and credit cards to continue spending, but now 25 million people are behind on their credit card, auto and personal loans, according to Equifax. These are the highest delinquency levels since the financial crisis in 2009.

China's PMI rose to 57.0 from 56.4, the highest level since 2011, showing that China, by far the largest consumer of commodities, is bouncing back strongly with the dropping of all Covid restrictions in the new year.

Seasonally, April is second only to November in terms of stock market performance since 1950. It is up 17 of 18 times in the third year of the US election cycle.

The 2022 bear market and market volatility has allowed us to slowly accumulate full positions in our best small cap ideas, helping our performance in 2023.

In April to date, MM benefitted from the $8 rise in oil prices as OPEC reduced output to increase prices. Energy is the largest sector in the fund at 27.2%, and we are happy that the Fund has been able to outperform and gain 6.7% this year, despite the headwinds from falling oil and natural gas prices. The Fund has been increasing its weight in the energy services sector this year, as we believe current prices above $70 will translate into healthy industry activity.

The move by the BRICS nations to move away from the dollar for trade settlement endangers the status of the US dollar as a reserve currency and makes gold much more valuable as an alternative. Gold has also benefitted from the bank turmoil, as we'd note that gold has the distinction of being no one's liability and thus carries no credit risk. We'd note that gold is already at all-time highs in all currencies, as it closed at an all-time high above US$2,000 last week. The Fund initiated a position in a gold explorer, and has doubled the weight in gold over the last month to 5.2%.

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