M$M Fund

Spartan Fund Management

February 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%											+6.60%	+4.78%
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)	123.47%	73.59%
Annualized Compound Return	11.13%	7.51%
Last 12 Months Return	-2.73%	-1.21%
Sharpe Ratio	0.60	0.56
Avg. Monthly Gain	3.73%	2.66%
Avg. Monthly Loss	-4.06%	-3.04%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.64%	13.39%
% of Winning Months	65.22%	65.22%
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	205.8645
- Class F	223.4666

*[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

"Only when the tide goes out do you discover who's been swimming naked."
Warren Buffet

SVB, SBF and Signature have been the biggest casualties of the 2022 tightening cycle. SVB is the second largest US bank failure, and Signature is the third largest.

When central banks tighten financial conditions by raising rates, they are forced to stop tightening following the failure of a large financial institution that is caught offside in its lending book. In 2004-07 the Fed was also raising rates to fight inflation, precipitating the global financial crisis and great recession in 2008. Many banks around the world required multi-billion dollar bailouts.

The 2Y yield collapsed 100bps in the last three days, dropping back below 4.00% - its lowest level since Sept 2022. This was the biggest yield drop since the 'Black Monday' stock market crash in 1987.

Bank runs are one of the unintended side effects of the most aggressive tightening cycle in history, as bank customers are incentivized to remove their funds from banks where deposits only pay 0.2%, and buy two year treasuries paying over 4% (5% last week).

Expectations for Fed hikes in 2023 have shifted dramatically in only 3 days: from 4 more rate hikes to battle inflation, to 2 cuts by year end. Bond yields tumbled 43 bps in 3 days as traders thought financial contagion would force the Fed to finally stop raising rates. The US dollar fell 2%, and gold soared US$100/ounce.

The news of the SVB failure, caused the S&P 500 to fall 3.3% over 2 days on fears of cascading financial contagion. The Fed backstop of all uninsured deposits seems to have slowed the bank run, and quelled fears of contagion for now.

After doing nothing for two years in the face of "transitory" inflation, the Fed raised rates in 2022 at the fastest pace in history, so we anticipated leveraged players would get in trouble. There are likely more casualties from Fed tightening, which effects the economy with a 12 to 18 month lag. Longer term a slowdown that brings down inflation, will allow the Fed to cut rates and restart the economic and equity cycle.

Rising rates have been pressuring consumers and the housing market, as US mortgage rates topped 7% versus 3% a year ago. US home prices have fallen 6 months in a row. Lower borrowing costs will ultimately be stimulative to the economy and markets as in previous cycles. Even the 43 bps drop of the last 3 days makes stocks and in particular growth stocks more valuable.

Thankfully the MM Fund currently holds no banks, and the financial sector at 12.2% is very underweight the TSX at 31.7%.

As a reminder, the MM Fund is a long-only mutual fund that 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 US equity securities. The "core" portfolio has more than doubled to 68% from 29.2% at year-end 2020, as fortunately we became more defensive well ahead of the bear market that began in early 2022. 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 in bull markets.

The Fund currently has a 10.1 % fixed income position consisting of high yielding corporate bonds and preferred shares. Fixed income was 9.5% at the beginning of 2022, and only 6.8% at the beginning of 2021. The bonds have generally held up despite rising rates, and we had some nice wins amongst the interest rate reset preferreds, and a convertible bond that was converted into stock. The Fund also has 3.7% in merger arbitrage positions, where we expect modest further gains on the closure of takeovers.

We continue to increase our exposure to stable dividend payers where we are "paid to wait". We especially like companies that have a track record of dividend increases. Historically dividend payers outperform in bear and down markets. The yield of the portfolio has grown to 3.52% from 2.97% in March 2022, and 2.6% in March 2021, which is more than twice the S&P 500 yield of 1.72%. 41% of the portfolio has a yield greater than 4%, up from 28.7% a year ago, where we are "paid to wait" and generally content to collect our dividends.

The Fund has a weighting of 6.3% in US large capitalization equities, where we want exposure to companies not trading on the TSX. We currently hold a semi-conductor company, an auto company, and a generic pharma company in the US portfolio.

8% of the fund is allocated to micro capitalization equities (less than $100 million), 42.2% to mid cap (less than $1 billion), and 39.6% to large cap companies.

Energy is the largest sector in the MM Fund with a 26.8% weight. MM Fund has exposure to energy in all forms: pipelines, mid-stream, refining, oil, international, natural gas and energy services. Even with the pullback in oil and natural gas prices, valuations and dividends in the sector remain attractive, and we believe oil prices will benefit from war related supply disruptions, and the post-pandemic opening of China, the world's second largest economy.

Non-cyclical health care is now the second largest sector in the Fund at 13.5%, as two large holdings in the home care space, and a generic pharma company have had big gains over the last few months.

Our next largest sector is industrials at 13.2%, a diverse set of companies including an aerospace company, a building supply company and a company making transformers for the electrification of the economy.

Financials at 12.2% includes two wealth management companies, a life insurance company, and a non-prime lender: all pay attractive dividends.

Materials at 9.1% includes gold, copper and fertilizer companies.

We have been cutting our real estate exposure, as rising rates pressures real estate valuations. We are down to 1.1% from 6.2% at the beginning of 2022, and will likely sell this sector down to zero this year, as we believe this sector is most vulnerable to higher borrowing costs.

We are mostly through the earnings season for many of our small and mid cap companies, and so far most of our companies are posting nicely growing earnings that have pleased investors.

Commentary continued on Page 2 >>>>

Strategically, our investment approach is to "let our winners run" and take losses more quickly. Over the last 6 years, the average holding period for our investments is 4.4 years. This is generally a tax efficient strategy, as we are able to defer capital gains very far in the future because of our long-term holdings, while crystallizing losses more quickly. Readers should note the difference between valuation, which occurs on a weekly basis with all holdings marked-to-market, and taxes that are only "crystalized" when positions are sold.

So, for example, the Fund could be up 20% yet investors would receive no tax allocation if there were no stock sales. Alternatively, the Fund could be down 20% but investors could have tax allocations if net sales produced a taxable capital gain.

In 2022, there was a mismatch between fund performance and taxes as we had some taxable capital gains from the sale of long-term holdings, in part due to portfolio re-positioning and in part due to two large takeovers. Generally, year-end is tax loss selling season as investors want to reduce their tax burden by selling their "losers" but we resisted blowing out a couple of losers at year end, thinking we would see better pricing in the new year. We have now sold the remainder of our losers on the bounce in markets this year. The good news for 2023 is that even as the fund is up around 7% this year, we have approx. 2% in net realized losses that are available to offset any future taxable gains realized in 2023.

Investor Contacts:

Gary Ostoich
416-601-3171
gostoich@spartanfunds.ca

Ed Sollbach
416-601-5607
esollbach@spartanfunds.ca

Paul Patterson
416-601-3175
ppatterson@spartanfunds.ca

Advisor Contact:

Brent Channell
416-601-3172
bchannell@spartanfunds.ca

Spartan Fund Management Inc.
150 King St. W., Suite 200
Toronto, ON M5H 1J9
www.spartanfunds.ca
