

## 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<sup>1</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	TSX
2023	+8.37%	-1.63%	+0.54%	+0.14%	-4.57%	+1.09%	+8.38%	-2.52%	-6.53%	+8.34%	+0.98%	-3.18%	+12.22%	+8.43%
2022	-1.14%	+2.95%	+2.21%	-4.78%	+0.92%	-9.33%	+6.18%	-2.52%	-1.02%	+3.58%	-3.25%	+1.29%	-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<sup>1</sup>

Cumulative Return (since inception)	135.24%	79.63%
Annualized Compound Return	11.22%	7.55%
Last 12 Months Return	8.30%	8.23%
Sharpe Ratio	0.61	0.57
Avg. Monthly Gain	3.66%	2.67%
Avg. Monthly Loss	-4.07%	-3.01%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.45%	13.27%
% of Winning Months	65.98%	64.95%
Correlation	0.81	

## MM Fund

## TSX

## 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	215.7814
- Class F	235.2384

<sup>1</sup> 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

As expected the Fed raised rates by 25 bps in July to 5.25%, the highest level in 22 years. 525 bps in hikes in just over a year has been the most aggressive Fed tightening in US history.

US inflation has plunged over the last year from a high of 9% a year ago to only 3.2% year-over-year in July, and markets are now expecting that the Fed is finally done raising rates, as monetary policy is now restrictive, with short rates well above the inflation rate.

The 4.7% year-over-year core CPI rate, which strips out food and energy prices to provide a purer read on inflation, is still more than twice the Fed's 2% target. Goods inflation has plunged to 0.8%, however services inflation, representing about 70% of the economy, remains hot at 6.1% since the reopening. Services are mainly domestic, and workers want and are demanding higher wages as their wages have not kept up with the pandemic surge in prices.

The US is selling an astounding \$1 trillion in debt this quarter to fund Biden's inflationary spending programs, following the suspension of debt sales because of the debt ceiling showdown. Exploding deficits even as the economy is strong has caused Fitch to downgrade the rating for US debt.

The combination of increased bond supply and the debt downgrade has pushed US ten-year bond yields over 4%, versus 3.3% in May. We are worried that higher bond yields will be a headwind for stocks in coming months. S&P 500 stock dividend yields of 1.54% are now a fraction of ten-year bond yields of about 4% and cash yields of 5.5% making the risk-free alternatives much more attractive to investors.

We'd note that stock dividend yields exceeded bond yields only 18 months ago before the Fed started the most aggressive tightening cycle in history. Over the last 20 years, the case for equities (TINA: There Is No Alternative) was always very compelling when equities yielded more than cash and treasury bonds. Now government and corporate bond yields seem more attractive given the lower risk profile versus stock dividends, and we have increased our fixed income exposure to about 10%.

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 70.7% 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 and small and micro capitalization stocks, that will likely have more volatility but a higher potential for capital gains in bull markets. "More" investments generally do not have a yield.

The Fund currently has a 9.9% 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 fixed income portfolio has generally held up despite rising rates, and we had some nice wins amongst the interest rate reset preferred shares.

We continue to increase our exposure to stable dividend payers where we are "paid to wait" and we are generally content to collect our dividends. We especially like companies that have a track record of dividend increases, and most of our "core" companies have increased dividends since 2020. Historically dividend payers outperform in bear and down markets. The yield of the portfolio has grown to 3.44% from 2.97% in March 2022, and 2.6% in March 2021, which is more than twice the S&P 500 yield of 1.54%. 33% of the portfolio has a yield greater than 4%, up from 28.7% in March 22.

Overall we are happy to be up about 10% this year, given a significant fixed income position, and only a 29% weighting in the more speculative "more" investments.

The Fund has a weighting of 6.7% in US large capitalization equities, where we want exposure to the type of companies that do not trade on the TSX. We currently hold a semi-conductor company, an auto company and a generic pharma company in the US portfolio.

10.9% of the Fund is allocated to micro capitalization equities (market cap of less than \$100 million), 41% to mid cap (market cap of less than \$1 billion), and 38.2% to large cap companies.

Energy is the largest sector in the MM Fund with a 30.2% 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. The Fund benefitted over the summer from a broad based rally in energy stocks, as oil prices rallied to over \$80 on continued global demand, combined with war related supply disruptions.

Our next largest sector is industrials at 18.7%, 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 11.5%, includes a life insurance company and a non-prime lender - all pay attractive dividends.

Non-cyclical health care is at 10.7%, comprised of two growing companies in the home care space and a generic pharma company.

Materials at 10.2% includes gold, copper and fertilizer companies.

# MM Fund



We have zero exposure to the interest sensitive real estate and utilities sector, which have been pressured by the Fed raising rates by 525 bps since March 2022.

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 earnings that are growing nicely, which has pleased investors, helping the Fund's performance this summer.

Strategically, we want 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 with our long-term holdings, while we have been aggressive in crystallizing our losses this year.

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*Please review the most recent offering memorandum for a detailed description of the Fund's strategy, objectives and risk factors. The above is provided for informational purposes only and is qualified in its entirety by way of the most recent offering documents, which is only available to qualified investors. Prospective investors should consult with a professional financial advisor before investing. Past performance cannot predict future results. Share value and yields will fluctuate. There can be no assurances that any of the Fund's objectives will be met. See Terms and Conditions of our website ([www.spartanfunds.ca](http://www.spartanfunds.ca)) for important information and qualifications regarding the use of benchmarking and indices. The index above was chosen as it is a widely used benchmark of the Canadian equity market. While the Fund uses this index for long-term performance comparisons, it is not managed relative to the composition of the index. There are differences which include security holdings, geographic and sector allocation which impact comparability. As a result, the Fund may experience periods when its performance differs materially from the index. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated, rates of return for periods greater than one year are historical annual compound total returns including changes in unit or share value and reinvestment of all distributions, and do not take into account any sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

*The Fund is a related and connected issuer of Spartan Fund Management Inc. Spartan may act as dealer in connection with the distribution of securities of the Fund and will also receive management and performance fees from the Fund.*