MM Fund

Spartan
Fund Management

September 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%	+0.14%	-4.57%	+1.09%	+8.38%	-0.71%	-2.92%				+8.17%	+3.38%
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)	126.74%	71.26%
Annualized Compound Return	10.49%	6.77%
Last 12 Months Return	14.57%	9.54%
Sharpe Ratio	0.57	0.51
Avg. Monthly Gain	3.66%	2.67%
Avg. Monthly Loss	-3.94%	-2.98%
Max. Drawdown	31.03%	22.25%
Annualized Std. Deviation	18.32%	13.22%
% of Winning Months	64.65%	63.64%
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	207.6338
- Class F	226.7436

*[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 Fed raised rates by 25 bps in July to 5.25%, the highest level in 22 years. 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.

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. However, the 4.7% year-over-year core CPI rate, which strips out food and energy prices, is still more than twice the Fed's 2% target.

The US is selling an astounding $1 trillion in debt this quarter to fund Biden's inflationary spending programs. 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 4.8%, versus 3.3% in May.

We are cautiously optimistic about the market in the near term. The Fed is likely done raising rates, and inflation is coming down. However, we are aware of the headwinds that could derail the market, such as higher bond yields, a recession, the ongoing war in Ukraine, and now the horror in Israel.

Unfortunately, our AI assistant is not yet ready to write the monthly investment letter. While the grammar, sentence structure, and spelling in the above text is flawless, our AI assistant didn't focus enough on the big story of September: soaring bond yields, that soared 47 bps in September, to the highest level since 2007.

The surge in rates cascades across the economy: for instance, US 30-year mortgage rates almost hit 8%, the highest level since 2000, versus less than 3% 3 years ago. US homeowners with 30-year mortgages are protected from the pain as the average US mortgage rate is locked in at only 3.6%. However new buyers are shut out of the market, as they have to pay twice that. US mortgage applications fell to the lowest level since 1996. In Canada most mortgages are five years or less so existing homeowners with mortgages will face difficult choices when their mortgage is up for renewal

Corporate borrowers have also mainly protected themselves from higher rates by locking in long terms. Even after the Fed jacked rates by 5.25% in 1 ½ years, the most aggressive tightening cycle in history, the average corporation pays only 2.99%, versus 2.42% 1 ½ years ago. Corporations have thus successfully avoided the pain of higher rates, as their average maturity is 8.5 years. However, when the debt matures, they would pay at least 2-300 bps above the 10-year bond rate (4.65%), so interest costs would more than double. But for now corporate profitability is benefitting from fixed income financing generally locked in at generational lows, when rates were substantially lower.

With rising interest rates and falling inflation, the global median 10-year government real rate (after inflation) has increased by over 6%, by far the biggest increase in over 60 years. This should pressure the global economy and profitability with the expected lags of 6 to 18 months.

When bond yields were below 2%, we saw that stocks could rise with rising bond yields. However, since bond yields rose above 3% in April 2022, correlations flipped negative, so that rising yields are associated with falling stock prices.

The result is that September lived up to its reputation as the worst month for stocks, as the S&P 500 fell 4.6%, its worst performance since December. Seasonally this sets up October as a "bear killer".

We are happy that the Fund managed to outperform the TSX in a difficult environment. The Fund lost 2.9% and the TSX was down 3.4% in September. The terrorist attacks in Israel pushed down bond yields on "flight to safety" buying, benefitting stocks as long as the war is limited and the rise in oil prices is contained. There is also the thought that the Fed will not want to raise rates further with all the geopolitical risks.

We believe energy stocks are a great financial hedge against war in Ukraine, or the mid-East. With oil prices above $80 again, energy is our favorite sector heading into earnings season, as the sector is cheap, and dividends, share buybacks and earnings are rising. Energy is the largest MM sector.

MM owns a rapidly growing small company that is using predictive AI to predict pipeline failures. We don't see a business for AI to replace mediocre interns, but we want to focus on finding more companies that use AI to create new transformative businesses, like the smart phone allowed giants like Facebook, Uber, and Airbnb to emerge. We are always open to discuss investment ideas!

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