Libertas Real Asset Opportunities Fund

Spartan Fund Management

Quarterly Report

Q3/2017

Performance Summary

	Q3/2016	Q/2017	Q1/2017	Q2/2017	Q3/2017	2017 Year-to-date	Since Inception
US$	-14.25%	-29.91%	-11.29%	+3.90%	-24.88%e	**-30.76%**	**-62.94%**
US$ (C$ equiv.)	-12.92%	-28.25%	-12.14%	+1.39%	-27.76%e	**-35.65%**	**-57.60%**

'e' refers to estimated returns, as opposed to final returns. The estimated returns for the current month are included in the calculation of all other returns and statistics.

Commentary

OSFI dropped a bombshell on the mortgage and credit markets in October with their new B-20 guidelines --on paper, this likely represents the largest mortgage credit tightening in Canadian history and may prove to be the straw that broke the camel's back. The new B20 guidelines will likely reduce the maximum mortgage amount by ~20% (borrowers must now qualify under the higher of the contract rate +200bps or the average of all bank posted mortgage rates--currently ~4.8%). The stress test will also be performed on any borrowers seeking to do a cash-out refi or to consolidate consumer debt into their mortgage, disproportionately impacting the highest LTV "serial refinancers"--this should have a negative impact on consumer spending. Remember that according to a recent poll "42% of Canadian respondents don't think they can cover basic expenses over the next year without going deeper into debt".

The new guidelines also target co-lending and bundled mortgages (where a financial institution loans to 80% LTV with a private lender arranging a second mortgage to 85-90%+ LTV at one blended rate). Under the new guidelines, any secondary financing that would bring the total combined loans on the property above 80% LTV are prohibited. OSFI specifically warned on "misrepresentation" (a euphemism for mortgage fraud); lenders will also be required to tighten up underwriting on investment properties and non-resident income. Marginal lenders will likely see a temporary uptick in demand from the new rules--at least at first--but these will be very risky loans underwritten at the top of the cycle and any benefit will be short-lived as 1) we believe that capital to the private lending space will likely be constrained versus demand and 2) the tightening credit will begin to reveal credit losses on these loans, further tightening credit.

A mid-tier lender commented on the changes in their quarterly report last week: "Markets are adjusting to an unprecedented level of regulatory and policy changes affecting mortgage insurance rules, foreign buyer taxes, underwriting requirements for regulated lenders and rising interest rates. It will take 6 to 12 months to see the full impact of these changes on housing sale volumes and prices. We expect home sale levels to slow as buyers react to the uncertainty caused by the multiple rule changes, the evidence of increases in listings and decreases in sales volumes. We expect to see some level of weakness in resale markets as markets adjust to fewer buyers and more available listings…We believe that there is an increased risk of a price correction in residential housing through the remainder of the year and into 2018 as prices adjust from historical highs in many geographic markets. We will continue to operate with more conservative underwriting and credit policies for uninsured mortgages through this market transition."

Mortgage credit growth has slowed even as the B20 rules begin to go into effect. At the same time, lines of credit surged; in our opinion slowing credit growth coupled with surging credit lines are what you would expect to see at the end of the cycle, as consumers draw down on lines of credit to avoid missing payments on existing debt. We think that this is likely extremely bearish for Canadian housing, consumer spending, and the economy overall. The most recent retail sales figures were weak (the largest monthly decline since January 2015) and we think will continue to weaken as credit continues to tighten. Interest rates have risen substantially since the summer, further compounding stress on Canadian borrowers. The new Canadian accounting rules (IFRS9) go into effect in January. We think that at the margin this will likely be negative for lenders as they may be required to be slightly more forthcoming with their accounting figures, which has the potential to impact both their financial statements and valuations.

Toronto home sales plummeted nearly 50% yoy in September, led by a 73% plunge in single family transactions. The decline continued in October, as Toronto home sales fell 31% yoy on a per-day basis while new listings rose 6% yoy and 11% in the single family segment. The proxy for foreign buyers in Toronto remains weak, with sales down almost 60% yoy. The largest publicly-traded subprime lender in Ontatio reported mortgage originations down 85% year over year.

Home sales in Alberta continued to weaken, declining yoy in October while new listings and inventory for sale both rose sharply. The high-end market remains particularly weak. At the same time, One of the larger multifamily REITS in Alberta announced an enormous cut to their dividend after another weak quarter even as office buildings are being converted into residential apartments, competing for shelter demand with both existing rentals and houses for sale. A major Edmonton homebuilder went into receivorship and owes creditors $243million. An Alberta-based business financing company filed for creditor protection at the end of October.

Vancouver home sales improved year over year, led by condo sales, as Asian buyers tepidly returned to the market. We believe that the ill-advised government down payment subsidy continues to help the sub-$2mil segment of the market, and that the higher end market continues to be weak.

Fund Information

RSP Eligible?	Yes
Minimum Investment	C$25,000
Subscription Frequency	Monthly
Redemption Frequency	Quarterly
Redemption Notice	1 month
Early Redemption Fee	7% < 1 year
'A' Class Management Fees (SPA750)	2.25% pa
'F' Class Management Fees (SPA760)	1.25% pa
Performance Fee	20%

Service Providers

Advisor	Spartan Fund Management Inc.
Sub-Advisor	JKD Capital, LLC
Prime Broker	BMO Nesbitt Burns
Auditor	Deloitte LLP
Administrator	SGGG Fund Services
Legal Counsel	McMillan LLP

Discounted management fees are available for a limited number of investor or investment advisors investing at least $5m.

See website for full details.

Investment Thesis

Canada has one of the most overvalued housing markets in the world and the Canadian economy is over-reliant on debt growth and the housing market. Both supply and demand will begin working against the housing market in 2016.

Investment Objective

To provide Canadians with an avenue to mitigate their exposure to housing and its potentially negative impact on their livelihoods and savings.

Investment Strategy

To find investments that will benefit from a decline in Canadian house prices. We aim to find investments that earn an asymmetric payoff, suffering small losses when we are mistaken and large gains when we are correct.

Corporate 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.

Investor Contacts:

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

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

Advisor Contact:

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

Office Address:

Spartan Fund Management Inc.
100 Wellington St. W., Suite 2101
Toronto, ON M5K 1J3
www.spartanfunds.ca