SPROTT GLOBAL INFRASTRUCTURE FUND

June 2017 Commentary

MARKET UPDATE

The S&P Global Infrastructure Index generated an impressive 10.5% total return in Canadian dollars year-to-date, despite a 4.1% decline in June.

Exhibit 1: 2016 total return of S&P Global Infrastructure Index in Canadian dollars year-to-date

Source: Bloomberg.

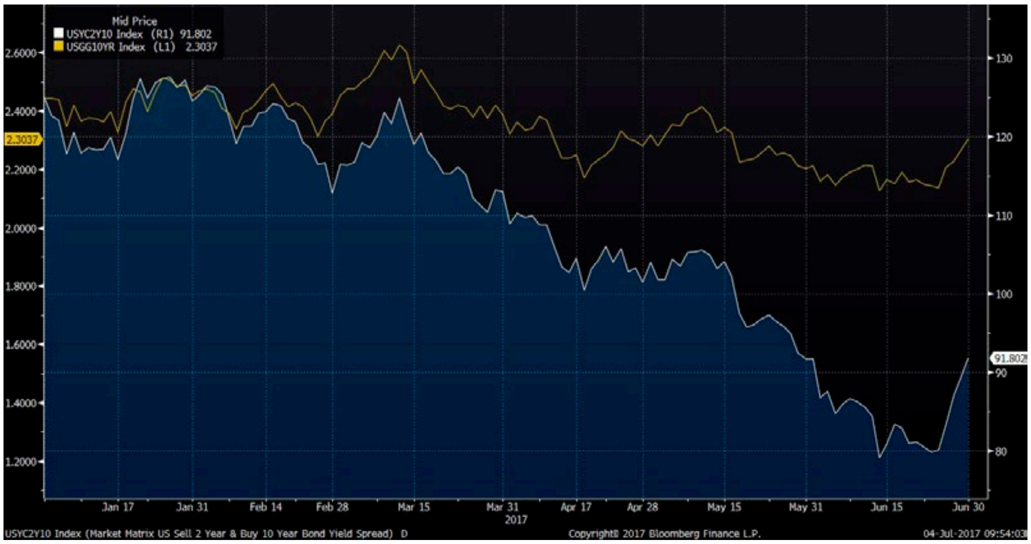
In local currencies, the Industrials sector (42.6% weight in the index) returned a total of 18.0%, the Utilities sector (38.6% weight in the index) returned a total of 10.0% and the Energy sector (18.8% weight in the index) returned a total of -3.6%, year-to-date. Within the Industrials sector, European airports, toll roads and railways were particularly strong as political risk dissipated and economic data remained robust.

Continuing this theme, European stocks were solid performers, with Germany, Spain, Italy and France generating total returns of 27.0%, 19.4%, 14.6% and 13.0% respectively.

Closer to home, stocks domiciled in the United States (the largest weight in the index at 35.1%) generated a total return of 9.0%. Unfortunately, Canadian stocks turned in the worst performance with a loss of 6.6% year-to-date, primarily due to the 28% peak to trough drop in crude oil prices from January through June.

The US Federal Reserve ("the FED") seems committed to gradually normalizing monetary policy, having raised the Federal Funds Rate 25 bps in both March and June. However, the yield on the US Government 10-year bond has remained relatively stable, causing the US yield curve to flatten in the first half of 2017. Despite the promised fiscal stimulus and the FED's favourable outlook, inflation expectations remain muted (see Exhibit 2 below). As a reminder, a flatter curve is typically supportive of infrastructure asset valuations due to the long-tailed nature of the associated cash flows and dividend payments.

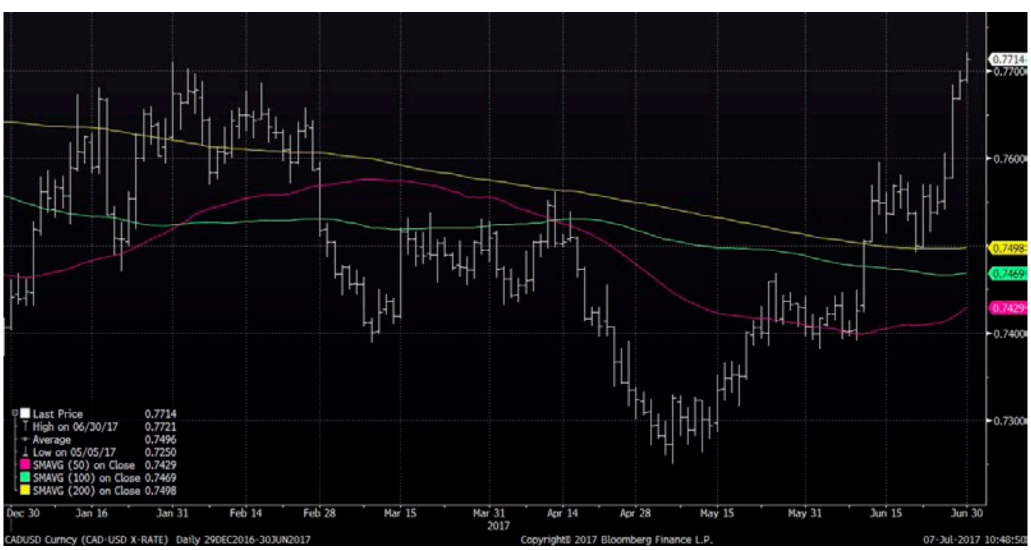
Exhibit 2: US Government 2-year bond and 10-year bond yield spread (white line) **and US Government 10-year bond yield** (yellow line)



Source: Bloomberg.

In June the Canadian macro narrative began to change. The Governor of the Bank of Canada, Stephen Poloz, surprised the markets with a sudden pivot in terms of monetary policy, shifting from an easing bias to a tightening bias. He asserted that the Canadian economy is picking up and that "the interest rate cuts we did two years ago have done their job". The odds of a rate hike in Canada and the Canadian Dollar both jumped significantly on this new, hawkish tone (see Exhibit 3 below) which has been carried on by the Deputy Governor of the Bank of Canada and the Federal Finance Minister.

Exhibit 3: Canadian Dollar



Source: Bloomberg.

A coordinated removal of monetary stimulus on a global scale was further bolstered by comments from the European Central Bank President, Mario Draghi, in the final week of June. Draghi hinted in a speech that accelerating growth in the Eurozone would warrant the removal of the monetary stimulus in place since the financial crisis.

In response, bond yields spiked, the USD dropped, the Euro soared, the CAD continued to strengthen and rate-sensitive investments came under pressure to end the first half of 2017.

PORTFOLIO UPDATE

As we've discussed in the past, we have expanded the traditional definition of infrastructure assets to include related investments in other industries including technology, defense, waste management, cable, telecommunications and real estate.

Currently, the Sprott Global Infrastructure Fund has positions in eight sectors including a 11.7% weight in the technology sector (primarily payment networks such as Visa and MasterCard and Internet search and advertising such as Google) and a 6.6% weight in the real estate sector (primarily mobile telecommunication towers such as American Tower and data centers such as Equinix).

The Fund is underweight the Utilities sector relative to its benchmark (18.3% compared to 38.6%) given the sector's low-growth and interest rate-sensitive characteristics. The Fund is also underweight the Energy sector relative to its benchmark (12.0% compared to 18.8%) given the commodity price weakness as US shale producers continue to aggressively supply the market despite OPEC's pledges to reduce output.

Strategically, the Fund is more exposed to improving global growth and more insulated from rising interest rates. The cash position is also elevated, as we trimmed some of our Utilities holdings given the more hawkish central bank commentary.

Top contributors year-to-date included Ferrovial (+76 bps), Drillisch (+75 bps) and SUEZ (+69 bps). Ferrovial benefitted from both traffic volume and price increases on its toll roads and the stabilization of its European construction division. Drillisch was the subject of a takeover offer by United Internet AG and was subsequently sold above the implied bid price. Sentiment on SUEZ was positively impacted by the favourable outcome of the French elections as well as the strategically important acquisition of GE's industrial water division.

Top detractors year-to-date included Nextdc (-34 bps), Enbridge (-20 bps) and Keyera (-16 bps). Nextdc came under pressure from a new entrant in the Australian data center market and was subsequently sold. Declining oil & gas prices negatively impacted both Enbridge and Keyera and continue to do so.

PORTFOLIO OUTLOOK

The solid first half of 2017 ended with a difficult month, as Central Banks around the world, in a seemingly coordinated manner, shifted from a dovish to a hawkish tone. Stocks, bonds and currencies all experienced heightened volatility as investors scrambled in an attempt to adjust positioning.

We expect the FED to hike rates at least one more time in 2017 but the yield curve should remain relatively flat as inflation expectations remain subdued. We also expect to hear discussions regarding the reversal of quantitative easing, as the FED in particular looks to begin the process of shrinking its balance sheet. We also expect the Bank of Canada to raise rates perhaps twice in 2017 for a total of 50 bps, removing the emergency stimulus needed as crude oil prices plunged through 2015 and into 2016.

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Based on PMI data from June, the US and the Eurozone are still both in expansion mode at 57.8 and 57.4 respectively. Earnings growth is expected to remain positive for the balance of 2017, with the S&P 500 (adjusted for companies with negative earnings) at 15.8% and the MSCI World at 19.7%. However, with the S&P 500 trading at a forward P/E of 18.6x compared to the MSCI World at 17.2x, we currently see more attractive valuations relative to growth expectations in Europe. Should the interest rate-sensitive and energy sell-off become too extreme in the US, we will look to deploy capital into high quality infrastructure investments that fall under our mandate.

The Sprott Global Infrastructure Fund remained concentrated with 33 positions at June 30, 2017 with the top 10 accounting for approximately 35% of the fund. At 18% of the portfolio, we are significantly underweight the Utilities sector, which should underperform in a rising rate environment. Our cash position remains elevated and we will continue to tactically manage this cash. We continue to hunt for undervalued global infrastructure investments leveraged to global growth in order to generate superior risk-adjusted returns.

Jeff Sayer
Associate Portfolio Manager

COMPOUNDED RETURNS (%) AS AT JUNE 30, 2017[1]

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (09/01/11)
SPROTT GLOBAL INFRASTRUCTURE FUND	-3.2	9.7	3.6	9.7	13.2	1.7	7.2	7.0
S&P GLOBAL INFRASTRUCTURE TR INDEX (CAD)	-4.1	10.4	3.3	10.4	13.1	10.5	15.1	15.0

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[1] All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at June 30, 2017; e) 2011 annual returns are from 09/01/11 to 12/31/11. The index is 100% S&P Global Infrastructure TR Index (CAD) and is computed by Sprott Asset Management LP based on publicly available index information. The index was previously Macquarie Global Infrastructure 100 Index (CAD) from inception to September 30, 2016.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk; concentration risk; credit risk; currency risk; derivatives risk; exchange traded funds risk; foreign investment risk; income trust risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; series risk; short selling risk; small company risk; specific issuer risk; tax risk.

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