

While both the TSX and the S&P 500 were largely flat in August, the headline performance hides the violent internal sector rotation that occurred as stocks positively correlated with higher interest rates, such as financials, led the market (+3.5%), while sectors negatively correlated with interest rates such as utilities and materials were down 6% and 10% respectively. Gold stocks were particularly weak given the recent negative correlation between interest rates and gold. The Enhanced U.S. Enhanced Equity and Enhanced L/S were relatively flat during the month of August and were down ~1.4%, ~1.2% and ~.3% respectively on the Friday September 9th sell off vs. the S&P 500 and TSX Composite which were down ~2.4% and ~1.8% respectively.

Early September saw a continuation of this rotation, as investors interpreted several Federal Reserve officials' speeches as more hawkish than the past, suggesting the potential for an unanticipated rate hike in the near future. As we've discussed in several commentaries, low interest rates and the "search for yield" have made investors more willing to pay ever increasing prices for high dividend yielding sectors such as REITS and utilities or "bond proxy" sectors. These sectors sold off violently on what historically would be considered a rather benign change in long and short-term interest rates – signs of significant crowding in the space. The movements are eerily similar to the taper tantrum of 2013; however during that correction we saw 10 year yields move up by approximately 150bps, much more than the 30bps move from the lows seen in the summer of 2016. A "taper tantrum"-like event was one of the macro risks that we outlined at the end of last year as we looked into 2016.

Markets continue to experience significant intra-sector rotation as investor sentiment swings rather forcefully around two polar opposite views of the U.S. economy, a trend we've seen for several years now. One camp fears the end of a U.S. economic cycle and the continuation of global deflationary impulses, and the other fears the global unintended consequences of what might happen "if" U.S. growth reaccelerates to a slightly higher, muddling pace and the Fed is forced to normalize rates after an unprecedented period of central bank liquidity. Clearly neither world is friendly for global risk assets, forcing market participants to search for valuations, sector exposures and risk/rewards that price in the fat tails of either scenario.

Two equity positions held across the funds reported significant acquisitions since our last commentary, leading to >10% rallies in both names. Alimentation Couche-Tard, a convenience store operator with significant exposure to the U.S., announced the accretive acquisition of CST Brands, a U.S. publicly traded convenience store chain that operates predominantly in Texas. While the initial post-synergy valuation for the deal is certainly higher than past acquisitions, we feel that management's guidance on costs synergies is likely to prove conservative given that CST's operating cost per store is well above Couche-Tard's and the industry median. At this point, we view the deal favorably and continue to hold the shares across the funds.

Additionally, Enbridge Inc. announced the acquisition of Spectra Energy. While the acquisition, the largest in Canada's history, is dilutive short term, it brings several benefits to Enbridge's shareholders. First, by virtue of being an all share deal, it bolsters the company's balance sheet. Second, it fulfills the strategic goal of diversifying the business mix away from oil towards natural gas, providing additional organic growth platforms to the company. This new, bigger and more diversified Enbridge offers a very compelling investment opportunity for those looking for strong and safe dividend growth. As such, we believe that the rerating of the stock still has legs in a world that values stability and growth certainty.

Continued on next page >

SPROTT ENHANCED EQUITY STRATEGY

August 2016 Commentary

Muddling Through Late in the Cycle

We continue to view the potential for further equity market multiple expansion as limited for various reasons that we've discussed in past commentaries. This leaves earnings growth as the major source of upside. We see equities offering moderate EPS growth potential, with higher than usual volatility as markets absorb the risks that we've discussed in the past.

Until next month,

The Enhanced Strategy Team:

John, Colin and Etienne

COMPOUNDED RETURNS (%) AS AT AUGUST 31 2016*

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR	ANNUALIZED INCEPTION
SPROTT ENHANCED BALANCED FUND, SERIES A	0.4	-0.4	1.9	4.1	-2.5	3.4	-	-	4.2
BLENDED INDEX ¹	0.3	8.1	3.9	10.5	9.3	11.4	-	-	10.7
SPROTT ENHANCED BALANCED CLASS, SERIES A	0.2	-0.9	1.5	3.7	-3.3	-	-	-	2.0
BLENDED INDEX ¹	0.3	8.1	3.9	10.5	9.3	-	-	-	11.3
SPROTT ENHANCED EQUITY CLASS, SERIES A	0.0	-2.5	1.9	4.1	-4.4	3.1	-	-	5.3
TSX/S&P 500 BLENDED INDEX ²	0.4	8.3	4.4	12.8	10.7	14.5	-	-	14.1
SPROTT ENHANCED LONG-SHORT EQUITY FUND L.P., CLASS A	0.2	-8.6	1.3	-0.8	-12.6	0.8	-1.3	2.9	9.0
TSX/S&P 500 BLENDED INDEX ²	0.4	8.3	4.4	12.8	10.7	14.5	13.6	7.2	7.6
SPROTT ENHANCED LONG-SHORT EQUITY RSP FUND, CLASS A	0.2	-8.9	1.1	-1.1	-12.8	0.5	-1.7	2.7	4.1
TSX/S&P 500 BLENDED INDEX ²	0.4	8.3	4.4	12.8	10.7	14.5	13.6	7.2	7.5
SPROTT ENHANCED U.S. EQUITY CLASS	-0.9	-3.3	0.7	2.7	-4.2	-	-	-	-5.6
S&P 500 TRI (CAD) ³	0.1	7.8	4.1	13.6	12.6	-	-	-	5.3

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August 2016 Commentary



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* All returns and fund details are a) based on Class/Series A shares/units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2016; e) inception date for Sprott Enhanced Equity Class is 04/16/12; f) inception date for Sprott Enhanced Balanced Class is 09/13/13; g) inception date for Sprott Enhanced Balanced Fund is 04/16/12; h) inception date for Sprott Enhanced Long-Short Equity Fund L.P. is 04/07/04; i) inception date for Sprott Enhanced Long-Short Equity RSP Fund is 09/30/05.

¹ 40% S&P/TSX Composite TRI; 30% S&P 500 TRI CAD; 30% FTSE TMX Canada Universe Bond Index™ and is computed by Sprott Asset Management LP based on available index information.

² 50% of S&P/TSX Composite TRI; 50% of S&P 500 TRI CAD and is computed by Sprott Asset Management LP based on available index information.

³ Indices are computed by Sprott Asset Management based on publically available index information.

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Sprott Asset Management LP: Toll Free: 1.866.299.9906. DEALER SERVICES: RBC Investor & Treasury Services: Tel: 416.955.5885; Toll Free: 1.877.874.0899.