SPROTT
ASSET MANAGEMENT

SPROTT ENHANCED EQUITY STRATEGY

November 2016 Commentary

With the US election and the OPEC meeting now in the rear view mirror, we believe the market still has more room to run. The prospect of lower corporate taxes, less regulation, repatriation of foreign earnings and now higher oil prices created a perfect storm for outperformance by industrials, financials, materials and energy stocks. Market consensus leading up to the US election was heavily, if not universally, tilted toward "low growth and rates forever". The possibility that aggressive tax reform and deregulation could stimulate meaningful economic growth and investment (and potentially inflation) is just starting to be discounted by the equity market. Furthermore, worldwide macroeconomic data has been coming in above expectations, suggesting that the world economy could actually be reaccelerating, potentially alleviating the "boat anchor" most had thought would continue to drag global growth lower.

But, over the longer term, a Trump election also bears significant risks. While the market has paid little attention to trade so far, a protectionist trade policy stance could seriously hurt the Canadian economy, trigger trade wars with other US trading partners (especially China) and ultimately create a very inflationary environment. Moreover, if the US dollar was to appreciate too far too fast, it would again represent a headwind to multinational earnings, engender renewed stress in some emerging markets that have large USD liabilities, force China to accelerate its own currency depreciation, and create contagion in financial markets. Finally, throwing massive fiscal stimulus at an economy that is already operating with a 4.6% unemployment rate creates a serious risk of overheating. For now, the market has decided to focus on the increasing likelihood of near to medium term stimulus, but eventually we expect more volatility as longer term risks from Trump policies potentially start to present themselves.

In our funds, we have made fairly material changes following the election results and the resulting market rotation out of safety and into cyclical and domestically oriented securities. Going forward, our base case is for a steeper yield curve, higher growth and investment, a strong US dollar and higher commodity prices. Under those conditions we would expect US Financials to do particularly well (benefit from a steeper yield curve, pay US taxes and have been heavily regulated/investigated/fined). Financials were already our largest sector weight but we added a life insurance company as a top ten holding as well. We also exited our small gold position and replaced it with a position in a base metals (copper) producer. We already had a significant exposure to defense and industrial companies, which should benefit from four years of Republican rule. Immediately prior to the election, we had initiated some very cheap option positions that would benefit from large upside moves in pharmaceuticals and financials and we are currently harvesting the gains from these positions and redeploying in core equity holdings.

Market behavior for the period from mid-2015 up until the US election was defined by very high levels of sector and asset class correlation and a minute to minute focus on the Fed which proved to be a very difficult environment for high active share managers, including us. That said, correlation has declined materially since the election, as has the market's obsession with the Fed – how many Fed stories have you read since the election? Looking forward we expect US government policy action related to taxation, spending and trade to define market activity. Given this, we expect a wide divergence across sectors and stocks – an environment much more in line with normal market behavior and one we have historically thrived in. We remain confident in our strategy, which has been proven to work over many market cycles. But, we have also adapted to changing market dynamics. Given the very sharp sector rotations we have experienced this year, we have changed the way we hedge, taking into account not just broad market risk, but also particular themes or risk

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factors that fluctuate rapidly and can affect some of our holdings. We have also deployed different option strategies on specific stocks or sectors, allowing us to participate on the upside with very limited downside participation.

Happy Holidays from the Enhanced team,
John, Colin & Etienne

COMPOUNDED RETURNS (%) AS AT NOVEMBER 30 2016*

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR	ANNUALIZED INCEPTION
SPROTT ENHANCED BALANCED FUND, SERIES A	0.6	-0.7	-0.3	1.6	-2.3	2.2	-	-	3.9
BLENDED INDEX[1]	1.4	10.3	2.1	6.1	10.0	9.8	-	-	10.6
SPROTT ENHANCED BALANCED CLASS, SERIES A	0.8	-0.9	0.0	1.5	-2.6	1.6	-	-	1.9
BLENDED INDEX[1]	1.4	10.3	2.1	6.1	10.0	9.8	-	-	11.1
SPROTT ENHANCED EQUITY CLASS, SERIES A	1.3	-2.7	-0.3	1.7	-4.3	2.0	-	-	4.9
TSX/S&P 500 BLENDED INDEX[2]	3.0	12.9	4.2	8.8	12.3	12.6	-	-	14.1
SPROTT ENHANCED LONG-SHORT EQUITY FUND L.P., CLASS A	-1.6	-9.8	-1.3	0.0	-12.2	-1.3	-0.7	3.1	8.7
TSX/S&P 500 BLENDED INDEX[2]	3.0	12.9	4.2	8.8	12.3	12.6	14.2	6.8	7.8
SPROTT ENHANCED LONG-SHORT EQUITY RSP FUND, CLASS A	-1.7	-10.2	-1.4	-0.4	-12.6	-1.6	-1.0	2.8	3.9
TSX/S&P 500 BLENDED INDEX[2]	3.0	12.9	4.2	8.8	12.3	12.6	14.2	6.8	7.7
SPROTT ENHANCED U.S. EQUITY CLASS, SERIES A	2.3	-4.0	-0.7	0.0	-5.9	-	-	-	-5.1
S&P 500 TRI (CAD)[3]	3.7	9.8	1.8	6.0	8.1	-	-	-	5.7

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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 November 30, 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. Inception date July 24, 2015.

[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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