

Sprott Enhanced Equity Strategy is designed to provide long-term growth with a focus on capital preservation. To achieve these objectives, the portfolio manager, John Wilson, focuses on a concentrated portfolio of quality companies and uses tools such as options to reduce downside volatility and enhance returns over the long term. Options are usually a small part of the portfolio but provide two important benefits:

- Insurance to protect against downside volatility
- Enhanced return potential for a given level of risk

Enhanced Risk Management

Buying equity index puts

Put options are used as insurance against equity market declines, in a similar way house insurance is used to protect property. Based on a defined level of maximum risk, or 'deductible', the manager buys sufficient equity index put options to protect the portfolio. If the market goes down, the value of the options offsets some of the decline; if the market goes up, the portfolio can participate in the upside unrestricted.

This strategy is dynamically adjusted on a daily basis and it takes a skilled manager and sophisticated risk monitoring system to determine just how much 'insurance' the portfolio requires.

EXAMPLE:

John wants to protect the portfolio from losses in the event of market decline. The S&P 500 is trading at 1,800 and he buys put options on the index with the strike price of 1,750. If the index drops below 1,750, John exercises the options to cover some of the losses in the portfolio. If the index does not decline, John does not exercise the options and allows them to expire. In either case the premiums paid for the options are the cost to the portfolio.

WHAT IS A PUT OPTION?

A put option is a contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price (strike price) within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares.

Enhanced Return Potential

Writing (selling) covered call options

Covered call options are used to support the manager's sell discipline. Part of the success of John Wilson's strategy is implementing a well-defined investment process, including setting sell targets for each stock in the portfolio. By writing, (selling), a covered call option, the manager agrees to sell the stock to the buyer of the call option at a specific price (strike price) before or at an expiration date.

The strike price of the call option is determined based on the manager's target sell price. This strategy removes emotion from the sell decision, as the call option is exercised by the buyer if the stock rises above the target valuation.

This strategy also has the potential to generate income for the portfolio, as the buyer of the call option has to pay the seller a fee (premium), reducing the overall cost of the shares.

EXAMPLE:

John acquires stock in Company A for \$25 per share. He believes the stock target price is \$30 and wants to sell the stock once it reaches that price. John sells a covered call option that allows the buyer to acquire his shares for \$30 within the next six months for a premium of \$1 per share. At the end of the six months, the stock is trading at \$30.50 and the buyer exercises the option at \$30. The Fund receives \$30 per share and keeps the \$1 per share premium.

If the stock is \$29 at the end of the six-month period, the option expires unexercised. The Fund keeps the stock and the \$1 per share premium.

Buying call options – gaining exposure to stocks at a lower cost

The manager buys call options on specific stocks to gain exposure to those stocks using only a small amount of the Fund's capital. If the stock price increases beyond the strike price before the call options expire, he can exercise the options and acquire the shares below the market price. This strategy can reduce the overall risk of the portfolio, since the risk exposure is limited only to the cost of the call options.

EXAMPLE:

John would like to gain exposure to Company B but is concerned about a short term event that could negatively impact its market price. Instead of allocating capital through a direct purchase of the stock, he purchases a call option which allows him to acquire the stock at \$10 within the six-month period. If the negative event occurs, and the stock trades at \$9 per share, the loss to the portfolio is limited to the cost of the premium. If all is well and the stock trades at \$11 per share in six months, John exercises the option and buys the stock at \$10, for a \$1 per share gain, less the cost of the option premium.

WHAT IS A CALL OPTION?

A call option is an agreement that gives an investor the right, but not the obligation, to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period.

Selling put options – selling insurance on individual stocks to lower the cost of entry

Selling put options on individual stocks is a tactic used to gain exposure to stocks the manager likes and would like to buy at a lower price, while also generating income from the premiums. This strategy is usually employed on existing positions to increase equity exposure at a lower price.

EXAMPLE:

John holds Company C and believes that the market is overly pessimistic about its prospects. John sells a put option to someone who believes the stock will decline in value. The stock price is currently \$50 per share and the strike price on the put is \$45. The premium collected is \$1. If the stock price does not fall below the strike price before the expiry of the option, the put option is not exercised and the Fund retains the \$1 premium. If the stock falls below the strike price, say \$44 per share, the Fund has the obligation to buy the stock for \$45. However, with the \$1 premium received, the effective cost of the stock to the Fund is \$44 per share. This strategy forces John to buy the stock at a predetermined price that he thinks is attractive, averaging down the cost of shares.

If the stock was to decline more, to \$42 per share for example, John would still be obligated to buy the stock for \$45. With the \$1 premium the effective cost of the shares would be \$44. In this case, the strategy is less effective than in the previous example, but much better than buying the shares at \$50 and watching them fall to \$42.

Options-based strategies are a valuable way to protect capital and enhance overall returns of the funds. They are complex and often difficult for individual investors to understand and implement, but managed by a professional team of experienced portfolio managers supported by a risk management system, they have the potential to improve risk-adjusted returns for investors over the long term.

FUND	A		AH		T		F	FT	FH
	FE	LL	FE	LL	FE	LL			
Sprott Enhanced Balanced Fund	SPR 240	SPR 241	-	-	SPR 243	SPR 244	SPR 245	SPR 247	-
Sprott Enhanced Balanced Class	SPR 438	SPR 443	-	-	SPR 441	SPR 444	SPR 439	SPR 442	-
Sprott Enhanced Equity Class	SPR 430	SPR 433	-	-	SPR 445	SPR 449	SPR 435	SPR 446	-
Sprott Enhanced Equity Class USD	SPR 447	SPR 454	-	-	SPR 455	SPR 456	SPR 448	SPR 457	-
Sprott Enhanced U.S. Equity Class USD	SPR 390	SPR 393	-	-	SPR 395	SPR 396	SPR 391	SPR 394	-
Sprott Enhanced U.S. Equity Class CAD	SPR 402	SPR 406	-	-	SPR 408	SPR 409	SPR 403	SPR 407	-
Sprott Enhanced U.S. Equity Class CAD Hedged	-	-	SPR 410	SPR 411	-	-	-	-	SPR 412
Sprott Enhanced Long-Short Equity Fund L.P.	SPR 009	-	-	-	-	-	SPR 109	-	-
Sprott Enhanced Long-Short Equity RSP Fund	SPR 091	-	-	-	-	-	SPR 191	-	-

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The risks associated with investing in a Fund depend on the securities and assets in which the Fund invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing. Sprott Asset Management LP is the investment manager to the Sprott Funds (collectively, the "Funds"). Important information about these Funds, including their investment objectives and strategies, purchase options, and applicable management fees, performance fees (if any), and expenses, is contained in their prospectus or offering memorandum. Please read these documents carefully before investing. Commissions, trailing commissions, management fees, performance fees, other charges and expenses all may be associated with investing in the Funds. This communication does not constitute an offer to sell or a solicitation to purchase securities of the Funds. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction. The information provided is general in nature and is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants and/or lawyers for advice on the specific circumstances before taking any action. Some examples of risks associated with the use of derivatives are: hedging strategies may not be effective; a market may not exist when the fund wants to close out its position in a derivative; the fund may experience a loss if the other party to a derivative is unable to fulfill its obligations; the derivative may not perform the way the manager expects it to perform, causing the fund to lose value; and costs of the derivative contracts with counterparties could rise.