

April was a tough month as the Sprott Resource Class returned -5.68%, underperforming the benchmark which returned -1.02%. Year to date, the Sprott Resource Class has outperformed the benchmark by 1.68%. Of the 24 resource fund peers we track, the Sprott Resource Class is the top performing resource over the 1-year and 3-year periods ending April 30, 2017.

Despite the fund's poor relative performance, there were no adverse fundamental developments in any of the portfolio's core holdings. In fact, one of the portfolio's larger holdings released a positive operational update only to see the stock trade off. Another large portfolio holding was down 23% in April despite no news or negative rumblings. The main culprit driving these seemingly irrational price movements is the GDXJ, one of the largest passive ETFs in the precious metals equity space. So, what's the problem? The GDXJ has become such a large holder of numerous precious metals equities, that short term moves are in many instances a situation where the tail is wagging the dog. Towards the end of March, 78% of GDXJ holdings were in stocks in which the ETF held greater than 10% of the shares outstanding. In April the GDXJ announced a methodology change. The implications are that there would be a number of GDXJ holdings that would be sold on the next rebalance date. The result was indiscriminate selling in many names including some of the largest holdings in the Resource Class because rational price discovery between active market participants has declined dramatically. The broader implication of passive ETFs being large holders of stocks relates to this lack of rational price discovery which challenges the basic assumption that the equity markets can efficiently assess and price risk (efficient market hypothesis). By blindly acquiring ETFs, market participants are not appropriately analyzing risk from the bottom up.

With respect to the core holdings, it is important to keep an eye on the prize. Core portfolio holdings will continue to be held through periods of increased volatility. As a reminder, the core portion of the portfolio is designed to deliver alpha over cycles. If the thesis surrounding a particular core equity remains intact, the fund will continue to hold the name regardless of the price action.

SPROTT RESOURCE CLASS

April 2017 Commentary

COMPOUNDED RETURNS (%) AS AT APRIL 28, 2017¹

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (10/17/11)
SPROTT RESOURCE CLASS, SERIES A	-5.7	-0.8	-5.2	1.5	25.8	6.6	2.1	-1.9
BLENDED INDEX [†]	-1.0	-2.5	-2.6	-0.8	6.7	-4.4	-2.4	-3.0

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[†] Blended Index (50/50 S&P/TSX Capped Materials Total Return Index and S&P/TSX Capped Energy Total Return Index) and is computed by Sprott Asset Management LP based on available index information.

¹ All returns and fund details are a) based on Series A shares; b) net of fees; c) annualized if period is greater than one year; d) as at April 28, 2017; e) 2011 annual returns are from 10/17/11 to 12/31/11.

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