SPROTT DIVERSIFIED BOND FUND

September 2017 Commentary

The fund continues to perform well, returning 11bps in the month of September. By comparison, Canadian and U.S. 10 year yields increased 25bps and 20bps in September, leading to monthly losses of 2% for the respective benchmark risk-free securities. This important increase in long term yields reflected the return of the "reflation trade", driven by renewed hopes of tax reform in the US, coupled with hawkish central bank communications (the Bank of Canada (BoC) unexpectedly raised rates again and, as expected the Fed initiated the reduction of its balance sheet). At this juncture, we believe that the hawkish BoC rhetoric has probably run its course; later in the month we saw Deputy Governor Lane and later Poloz himself attempt to talk down the Canadian dollar. In addition, with the NAFTA negotiations seemingly in trouble, the BoC will likely be incorporating this significant downside risk to the Canadian economy as they formulate their outlook. In the U.S., the Fed is now asserting itself in a resolutely hawkish stance, continuing to indicate its willingness to hike in December and to follow through with 3-4 further rate hikes in 2018. Meanwhile, credit conditions continue to be benign, leading spreads to perform well (maybe a bit too well).

Although we still favor credit, we maintain a cautious stance and look for a better entry points. Valuations (particularly in High Yield (HY)) are stretched, but they could remain so for an extended period of time. Consistent with this view, we continue to reduce our exposure to Emerging Markets (now less than 3% of the fund) and monetize gains in HY bonds, looking to recycle capital. It is important to note that about a third of our HY exposure matures or is callable within the next year, which greatly reduces HY risk in the portfolio.

In lieu of HY, we are finding attractive securities in the Canadian preferred shares market; particularly low coupon rate resets that trade at a discount to par. Because of their low coupon and upcoming reset dates, these preferred shares exhibit negative duration (they become more valuable with higher rates), presenting a compelling complement to the portfolio.

In Canada, the primary market has been very active, allowing us to buy good quality investment grade (IG) bonds at relatively decent yields, thanks to the recent rate hikes. Additionally, we continue to sift through the secondary market, looking for attractive IG additions to the portfolio.

Reflecting our view on interest rates, we have been keeping portfolio duration at a conservative 2.5 years, while preserving a yield above 3% (by contrast, the Broad Market Canadian bond ETF has an effective duration of 7 years and a yield of 2.5%). Furthermore, we have initiated a low cost duration hedge using options on the iShares 20+ Year US Treasury Bond ETF. This hedge would pay-off in the event long term US yields were to increase past previous highs, providing an additional layer of protection to the portfolio.

We feel the portfolio is currently well positioned and are committed to our objectives of reasonable return, low volatility and preservation of capital.

Until next month,

The Bond Team: Mark, Etienne and Chris

SPROTT DIVERSIFIED BOND FUND

September 2017 Commentary

COMPOUNDED RETURNS (%) AS AT SEPTEMBER 29, 2017[1]

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (08/05/10)
SPROTT DIVERSIFIED BOND FUND, SERIES A	0.11	3.32	0.52	1.84	4.20	3.63	3.74	4.14
BLENDED INDEX*	0.33	5.37	1.04	2.95	5.93	5.21	5.50	6.69

www.ninepoint.com

* Blended Index is 75% of the BofA Merrill Lynch US High Yield Index and 25% FTSE TMX Canada Universe Bond Index™ and is computed by Ninepoint Partners LP based on available index information.

[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 September 29, 2017; e) 2010 annual returns are from 08/05/10 to 12/31/10.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk (Series T, Series FT, Series PT, Series PFT, Series QT, and Series QFT units only); concentration risk; credit risk; currency risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; substantial unitholder risk; tax risk; liquidity risk.

Ninepoint Partners LP is the investment manager to the Sprott Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series A units of the Fund for the period ended September 29, 2017 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. 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 opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: RBC Investor & Treasury Services: Tel: 416.955.5885; Toll Free: 1.877.874.0899