Sprott Focused Global Dividend Class

December 2017 Commentary

In 2017, the Sprott Focused Global Dividend Class generated a total return of 13.7% compared to the MSCI World Index, which generated a total return of 14.6%.

Investment Team

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Returns in the month of December were disappointing on an absolute basis but decent on a relative basis, with the Fund generating a total return of -1.1% while the benchmark generated a total return of -1.3%. Canadian dollar strength in the final week of the year was the primary driver of weakness over the course of the month.

Through the end of calendar 2017, our USD exposure was unhedged, in line with our benchmark. Our modelling continues to indicate that the Canadian dollar is likely to weaken in 2018. However, recent oil price strength and rising expectations for interest rate hikes from the Bank of Canada has led to Canadian dollar strength. We are looking to add USD/CAD hedges early in 2018, perhaps as rhetoric surrounding NAFTA negotiations heats up, in order to reduce currency-related volatility in the Fund.

Top contributors to the 2017 performance of the Sprott Focused Global Dividend Class included Mastercard (+137 bps), Visa (+136 bps) and Alphabet (+122 bps). Top detractors in 2017 included Macquarie Infrastructure (-49 bps), Disney (-30 bps) and Nextdc (-26 bps). Note that we have eliminated all three of these securities due to stock-specific factors that led to the disappointing performance.

The one of the key sectors that has worked in the post-election environment has been the financials, especially in the United States. In a similar fashion, we expect European financials to continue to perform well into 2018, as the improving global economy drives steeper yield curves and investors worldwide embrace the sector's relatively attractive valuation and above average dividend yield.

In the Sprott Global Dividend Fund, we have positions in both Credit Suisse Group AG (CSGN SW) and UBS Group AG (UBSG SW). Credit Suisse, a leading global wealth manager, generated 42% of 2016 net revenues in Switzerland, 36% in the Americas, 13% in Asia Pacific and 10% in Europe, the Middle East & Africa. CS currently trades at a 2018E forward P/E multiple of 13.7x and yields 3.8%. UBS, the larger and more globally diversified Swiss bank, generated 41% of 2016 net revenues in the Americas, 24% in Switzerland, 22% in Europe, the Middle East & Africa and 15% in Asia Pacific. UBS currently trades at a 2018E forward P/E multiple of 12.5x and yields 3.2%. Both banks are expected to benefit from solid growth in their respective wealth management businesses, with global private wealth forecasted to compound at approximately 6% over the five year period through 2021, including growth of 9.9% in the Asia Pacific region (according to the BCG World Wealth Report 2016).

The Sprott Focused Global Dividend Class was concentrated in 30 positions as at December 31, 2017 with the top 10 holdings accounting for approximately 40.4% of the fund. Over the past year, 22 out of our 30 holdings have announced a dividend increase, with an average hike of 21.0%. We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffrey Sayer, CFA

[1] All returns and fund details are a) based on Series F shares; b) net of fees; c) annualized if period is greater than one year; d) as at December 29, 2017; e) 2015 annual returns are from 11/25/15 to 12/31/15. The index is S&P GLOBAL 1200 TR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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