Sprott Focused US Dividend Class

February 2018 Commentary

Year-to-date to February 28, the Sprott Focused US Dividend Class generated a total return of 2.66% compared to the S&P 500 Index, which generated a total return of 3.83%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Returns in the month of February were disappointing on both a relative and absolute basis, with the Fund generating a total return of -0.15% while the benchmark generated a total return of 0.51%. After a fantastic start to the year, the inevitable and normal 2% to 4% market correction quickly accelerated into something more dramatic. From its high on January 26th of 2,872, the S&P 500 declined to an intraday low of 2,532 on February 9th, a drop of approximately 11.8% in just 10 days.

The selling was likely triggered by a rally in the US 10-year yield to a five-year high, driven by fears of rising inflation and accelerated FED tightening. As market volatility spiked, systematic strategies were forced to rebalance their portfolios by selling equities irrespective of valuation or fundamentals, which led to the much larger than anticipated market drawdown. Threats of tariffs on steel and aluminum and talk of an ensuing trade war did nothing to help sentiment. However, the outlook for economic growth and corporate earnings has changed very little during the month and the markets have since recouped some of the losses. From our perspective, the correction has provided an opportunity to high-grade our portfolios and add exposure to sectors and stocks that benefit most in a mid to late-cycle environment.

Our modelling continues to indicate that the Canadian dollar should weaken in 2018. Although the Canadian dollar strengthened through January on accelerating global growth expectations, the currency did indeed weaken in February. But with at least some of the recent move related to the threat of a global trade war, which may turn out to be less severe for Canada than initially feared, we have hedged approximately half of our USD exposure in order to reduce currency-related volatility in the Fund.

Top contributors to the year-to-date performance of the Sprott Focused US Dividend Class included Raytheon (+78 bps), Mastercard (+68 bps) and S&P Global (+55 bps). Top detractors year-to-date included Brookfield Asset Management (-37 bps), Quanta Services (-34 bps) and Delphi (-30 bps).

One of our favourite communications and media companies, Comcast Corporation (CMCSA US), has potentially become involved in the consolidation of the sector, with its $31 billion offer for Sky PLC on February 27th. Specifically, Comcast has made a cash offer of €12.50 per share, which represents a 16% premium to the current bid from Rupert Murdoch's 21st Century Fox. If successful, Comcast would gain a strategic foothold in Europe with attractive content rights, bolstering future growth opportunities.

The Sprott Focused US Dividend Class was concentrated in 28 positions as at February 28, 2018 with the top 10 holdings accounting for approximately 42.4% of the fund. Over the past year, 23 out of

our 28 holdings have announced a dividend increase, with an average hike of 27.9%. 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