Sprott Global Infrastructure Fund

February 2018 Commentary

Investment Team

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Year-to-date to February 28, the Sprott Global Infrastructure Fund generated a total return of -2.38% compared to the S&P Global Infrastructure Index, which generated a total return of -3.76%.

Returns in the month of February were acceptable on a relative basis but disappointing on an absolute basis, with the Fund generating a total return of -1.94% while the benchmark generated a total return of -2.65%. 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 Global Infrastructure Fund included Raytheon (+68 bps), Mastercard (+57 bps) and Visa (+31 bps). Top detractors year-to-date included Equinix (-36 bps), Brookfield Asset Management (-33 bps) and Quanta Services (-32 bps). Rate sensitive securities were hit particularly hard in February on the spike in the US 10-year yield.

On a positive note, one of our holdings, the Spanish airport operator Aena SME SA (AENA SM) recently reported passenger traffic growth of 8.3% to a record 265 million passengers in 2017. As a result, management increased the dividend 70% to €6.50 per share, moving AENA's dividend yield from one of the lowest in the sector to one of the highest. We expect the shares to continue to perform well after this announcement.

The Sprott Global Infrastructure Fund was concentrated in 31 positions as at February 28, 2018 with the top 10 holdings accounting for approximately 37.1% of the fund. Over the past year, 26 out of our 31 holdings have announced a dividend increase, with an average hike of 16.8%. Using a total infrastructure approach, we will continue to apply a disciplined investment process, balancing valuation, growth and yield in an effort to generate solid risk-adjusted returns.

Jeffrey Sayer, CFA

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at February 28, 2018; e) 2011 annual returns are from 09/01/11 to 12/31/11. The index is 100% MSCI World Core Infrastructure NR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk; concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; income trust risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; series risk; short selling risk; small company risk; specific issuer risk; tax risk.