Sprott Focused Global Dividend Class

January 2018 Commentary

In January 2018, the Sprott Focused Global Dividend Class generated a total return of 3.82% compared to the S&P Global 1200 Index, which generated a total return of 3.09% in CAD.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Returns in the first month of the year were excellent on an absolute basis and good on a relative basis. From a broader perspective, the traditional interest rate-sensitive sectors (telecommunications, real estate and utilities) have been under pressure since last December, as the US 10-year Treasury yield rallied above 2.40%. By late January, with the US 10-year Treasury yield approaching 2.85% driven by fears of rising inflation and accelerated FED tightening, the broader equity markets had joined the correction. However it is important to remember that global economic data remains positive and 2018 expected earnings growth looks to be exceptional. Therefore, we don't expect anything more than a sharp but normal mid-cycle correction to play out in the markets.

At the beginning of the year, 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 accelerating global growth has led to US dollar weakness. On counter-trend rallies we have begun to add USD/CAD hedges in order to reduce currency-related volatility in the Fund in 2018.

Top contributors to the January performance of the Sprott Focused Global Dividend Class included Credit Agricole (+39 bps), Mastercard (+36 bps) and Alphabet (+36 bps). Top detractors in January included Brookfield Asset Management (-24 bps), Affiliated Managers Group (-14 bps) and Suncor Energy (-11 bps). There was nothing unusual driving the performance of any of these names in the month, one way or another, although AMG did report slightly disappointing earnings at month end.

As crude oil prices rallied from the lows of 2017, we built positions in both Royal Dutch Shell PLC (RDSB LN) and Total SA (FP FP) in the Sprott Global Dividend Class. Both of these companies are considered global supermajors, with large upstream (exploration and production), downstream (refining, marketing and distribution) and chemicals businesses. Royal Dutch Shell currently trades at a forward P/E multiple of 13.8x and offers a gross dividend yield of 6.1%. Our confidence in the story was bolstered when the Company recently cancelled its scrip dividend program, which offered a share-based alternative to cash payments, with future dividends to be settled entirely in cash. Total currently trades at a forward P/E multiple of 13.2x and offers a gross dividend yield of 5.5%. Our interest in Total was triggered by the completion of a three-year, $10 billion asset sale program, which high-graded the portfolio and cut production costs from almost $10 per boe (barrel of oil equivalent) to less than $5.50 per boe in 2017. Both companies are poised to generate significant cash flow in the current oil price environment.

The Sprott Focused Global Dividend Class was concentrated in 28 positions as at January 31, 2018

with the top 10 holdings accounting for approximately 41.7% of the fund. Over the past year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 15.8%. 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 January 31, 2018; e) 2015 annual returns are from 11/25/15 to 12/31/15.

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