# Sprott Focused US Dividend Class

## January 2018 Commentary

### Investment Team

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In January 2018, the Sprott Focused US Dividend Class generated a total return of 2.81% (Series F) compared to the S&P 500 Index, which generated a total return of 3.30% in CAD.

Returns in the first month of the year were good on an absolute and slightly disappointing 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 US Dividend Class included Thermo Fisher Scientific (+48 bps), Raytheon (+37 bps) and Alphabet (+34 bps). Top detractors in January included Brookfield Asset Management (-20 bps), Affiliated Managers Group (-16 bps) and Broadcom Corporation (-15 bps). Thermo Fisher and Raytheon both reported solid operational and financial results in the month and the shares responded positively. Broadcom has been eliminated from the portfolio as the Company's management became more aggressive in its pursuit of Qualcomm as a takeover target.

On January 31, Thermo Fisher Scientific (one of our recent purchases in the Sprott Focused US Dividend Class) reported what was called "its best overall quarter in the last ten years" with core, organic revenue growth coming in at 8%, adjusted EPS growth coming in at 16% and free cash flow conversion reaching 93% of net income. The Company boosted its quarterly dividend from $0.15 per share to $0.17 per share and guided to a total of $500 million of share buybacks in 2018. Given the generally steady and predictable nature of the Company's business (the sale of scientific instruments, consumables and chemicals to pharmaceutical & biotech companies, hospitals & clinical labs, universities and other research institutions), the top-line acceleration and ability to return capital to shareholders is truly remarkable. Given the high-quality nature of this business, we were very comfortable building our position at less than 18x forward earnings based on our disciplined investment process.

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

the top 10 holdings accounting for approximately 40.5% of the fund. Over the past year, 22 out of our 28 holdings have announced a dividend increase, with an average hike of 23.3%. 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