Sprott Focused Global Dividend Class

November 2017 Commentary

Investment Team

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Year-to-date to November 30, the Sprott Focused Global Dividend Class generated a total return of 15.0% compared to the MSCI World Index, which generated a total return of 16.0%.

Returns in the month of November were decent, with the Fund generating a total return of 1.6% while the benchmark generated a total return of 2.2%. Although slightly behind the index over the month, given the outperformance of the consumer discretionary sector (driven by Amazon's blow-out results), investors should be generally pleased to have kept pace in a dividend-focused, broadly-diversified fund.

Although we had hedged 50% of our USD exposure in November, we removed the hedges at the end of the month, returning to a neutral position relative to our benchmark. Our modelling indicates that the Canadian dollar is likely to weaken through the end of the year, with the US Federal Reserve expected to hike rates on December 13, while the Bank of Canada remains on hold into 2018.

Top contributors to the year-to-date performance of the Sprott Focused Global Dividend Class included Unitedhealth Group (+148 bpd), Mastercard (+147 bps) and Visa (+143 bps). Top detractors year-to-date included Macquarie Infrastructure (-49 bps), Disney (-31 bps) and Nextdc (-27 bps). Note that we have eliminated all three of these securities due to stock-specific factors that led to the disappointing performance.

Given recent developments, we wanted to disclose that we have sold our entire position in Cineworld Group PLC (CINE LN) for a gain of 19% on the year. Although Cineworld reported 12.4% revenue growth and 12.9% EBITDA growth for the first half of 2017 (in constant currency), most of the growth could be attributed to acquisitions and new site openings as opposed to same store traffic and pricing gains. We had also noticed that the Company was investing heavily in technology and refurbishments such that net debt increased to £309.2 million from £250.3 million, an increase of 23.5% on a year over year basis.

It was only about two weeks after we had sold our position in Cineworld that our concerns regarding a lack of organic growth were validated. On November 29, in response to market rumours, Cineworld confirmed discussions with Regal Entertainment Group (RGC US) regarding a possible takeover. Essentially, Cineworld (a US$2.4 billion market cap company with about US$400 million of debt) was bidding $23 per share of Regal, implying a US$3.6 billion offer plus the assumption of $2.3 billion of debt. Investors who held the shares at the time of the announcement questioned the deal rationale, and sent the stock down 17% on the day. Perhaps management can make this large reverse takeover work, but we consider ourselves fortunate to have missed the selloff in the interim.

The Sprott Focused Global Dividend Class was concentrated in 29 positions as at November 30, 2017 with the top 10 holdings accounting for approximately 42% of the fund. Over the past year, 21 out of our 29 holdings have announced a dividend increase, with an average hike of 21.6%. 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 November 30, 2017; e) 2015 annual returns are from 11/25/15 to 12/31/15.

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