Sprott Global Infrastructure Fund

January 2018 Commentary

Investment Team

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In January 2018, the Sprott Global Infrastructure Fund generated a total return of -0.26% (Series F) compared to the S&P Global Infrastructure Index, which generated a total return of -1.15% in CAD.

Returns in the first month of the year were disappointing on an absolute basis but decent 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 Global Infrastructure Fund included Raytheon (+32 bps), Alphabet (+29 bps) and Mastercard (+28 bps). Top detractors in January included Pembina Pipeline (-28 bps), Brookfield Infrastructure Partners (-26 bps) and Transcanada Corporation (-23 bps). Canadian equity markets have had a particularly difficult start to the year and Canadian energy infrastructure has been quite weak given commodity price differentials and NAFTA concerns.

Our total infrastructure approach allows the purchase of stocks that are not traditionally thought of as infrastructure but are essential to the functioning of a modern, developed economy. Raytheon, the US-based defense prime contractor, fits within this mandate quite nicely.

Raytheon (RTN US) is perhaps best known for manufacturing the Patriot air and missile defense system, an indispensable component of many sovereign nations' military infrastructure. Note that the Company is one of the most globally diversified US-based defense contractors, with approximately 40% of the current backlog tied to international sales. In 2018, the Company is forecasting revenue of $26.4 to $26.9 billion (an increase of 4% to 6%) and earnings from continuing operations of $9.55 to $9.75 per share (an increase of 38% to 40%). With an effective tax rate of almost 36% in 2017 but only 19% in 2018, Raytheon is a big beneficiary of US tax reform, a theme that has worked since the US election.

The Sprott Global Infrastructure Fund was concentrated in 31 positions as at January 31, 2018 with

the top 10 holdings accounting for approximately 35.6% of the fund. Over the past year, 24 out of our 31 holdings have announced a dividend increase, with an average hike of 15.4%. 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 January 31, 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.

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