Sprott Focused US Dividend Class

October 2017 Commentary

Investment Team

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Year-to-date to October 31, the Sprott Focused US Dividend Class generated a total return of 10.6% compared to the S&P 500 Index, which generated a total return of 12.3%.

Returns in the month of October were excellent, with the Fund generating a total return of 5.3% while the benchmark generated a total return of 5.8%. Although slightly behind the index over the month, given the significant outperformance of the technology sector, investors should be generally pleased to have kept pace in a dividend-focused, broadly-diversified fund.

Returns in October were also positively impacted by a weakening CAD versus the USD. As we had suggested in prior commentary, modelling suggested that some of the recent Canadian dollar strength was unwarranted and was likely to reverse, which played out in October to our benefit.

Top contributors to the year-to-date performance of the Sprott Focused US Dividend Class included Mastercard (+146 bps), Visa (+135 bps) and Alphabet (+120 bps). Top detractors year-to-date included PG&E (-71 bps), Macquarie Infrastructure (-56 bps) and Disney (-56 bps). Note that we have eliminated all three of these securities due to stock-specific factors that led to the disappointing performance.

The third quarter of 2017 was particularly notable for some spectacular earnings reports from three of our mega-cap tech holdings. Apple grew revenue 12% to $52.6 billion and grew adjusted earnings 24% to $2.07 per share. The Company generated operating cash flows of $15.7 billion and, even after returning $11 billion to shareholders through dividends and buybacks, now has $153 billion of net cash on the balance sheet, or almost $30 per share. Clearly, the focus is now on the ramp of the iPhone X and initial reviews and early estimates of unit sales are positive.

Next, Google reported revenue growth of 24% to $27.8 billion and adjusted earnings growth of 34% to $9.71 per share. Paid clicks increased 47% on a year over year basis while cost-per-click declined 18%, leading to core operating margin expansion. Although Google doesn't pay a dividend, the Company now has $103 billion of net cash on the balance sheet or almost $150 per share and remains one of the most consistent and stable growth stories in the market today.

Finally, Microsoft grew revenue 12% to $24.5 billion and grew adjusted earnings 15% to $0.79 per share. The Company generated free cash flow of $10.3 billion and returned $4.8 billion to shareholders through $3.2 billion in dividends and $1.6 billion in share repurchases. Microsoft has successfully transitioned away from its reliance on personal computing with Productivity and Business Processes growing 28% to $8.2 billion of revenue and Intelligent Cloud growing 14% to $6.9 billion in revenue.

The Sprott Focused US Dividend Class was concentrated in 27 positions as at October 31, 2017 with the top 10 holdings accounting for approximately 47% of the fund. Over the past year, 20 out of our 27 holdings have announced a dividend increase, with an average hike of 27.9%. We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

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