

## Investment Team



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Senior Portfolio Manager



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CFA, MA  
Portfolio Manager

## Fund Objective

The Fund's investment objective is to maximize the total return of the Fund and to provide income by investing primarily in debt and debt-like securities of corporate and government issuers from around the world.

## Fund Details<sup>1</sup>

|   |  |
|---|--|
| Fund Type   | Diversified High-Yield Fixed Income Fund |
| Assets Under Management                             | \$126.4 Million                          |
| Nature of Securities Offered                        | Mutual Fund, Trust Units                 |
| Inception Date                                      | August 5, 2010                           |
| Unit Price  | \$10.02                                  |
| Min. Initial Investment                             | \$1,000                                  |
| Min. Subsequent Investment                          | \$100                                    |
| Min. Investment Term/<br>Early Redemption Fee (ERF) | 60 Days/1.5% ERF                         |
| Contributions/Valuations                            | Daily                                    |
| Management Fee                                      | 1.65%                                    |
| Performance Fee                                     | 10% over blended benchmark index*        |
| Eligible for Registered Plans                       | Yes                                      |
| Risk Tolerance                                      | Average                                  |
| Distributions YTD**                                 |  |
| January 2012  | \$0.0500 Per Unit                        |
| February 2012                                       | \$0.0500 Per Unit                        |
| March 2012  | \$0.0500 Per Unit                        |
| April 2012  | \$0.0500 Per Unit                        |

## Fund Codes

| Code      | NL      | FE      | LL      |
|-----------|---------|---------|---------|
| Series A  |         | SPR 018 | SPR 318 |
| Series T  |         | SPR 418 | SPR 518 |
| Series F  | SPR 118 |         |         |
| Series FT | SPR 619 |         |         |

\*75% BofA Merrill Lynch US High Yield Index; 25% DEX Universe Bond Index.

\*\*Monthly distribution is not guaranteed and may be adjusted from time to time at the discretion of the fund manager.

## Why Invest in this Fund?

- Absolute return focused with the ability to short for hedging purposes.
- An ideal complement to traditional bond funds, GICs and bond ladders.
- Flexibility to invest in all fixed income asset classes.

## Compounded Returns (%)<sup>1</sup>

| COMPOUND                               | 1 MTH | 3 MTH | 6 MTH | 1 YR | INCEPTION  |
|--|-------|-------|-------|------|------------|
| FUND                                   | 0.0   | 2.1   | 3.9   | -0.1 | <b>4.4</b> |
| BLENDED INDEX*                         | 0.6   | 2.2   | 5.4   | 6.0  | <b>8.8</b> |
| DEX UNIVERSE BOND INDEX                | 0.1   | -0.6  | 2.4   | 9.0  | <b>7.0</b> |
| BOFA MERRILL LYNCH US HIGH YIELD INDEX | 1.0   | 3.2   | 6.4   | 5.1  | <b>9.7</b> |

## Annual Returns (%)<sup>1</sup>

| CALENDAR                               | 2010 | 2011 | YTD  |
|--|------|------|------|
| FUND                                   | 3.5  | -0.3 | 5.0  |
| BLENDED INDEX*                         | 4.8  | 5.7  | 4.5  |
| DEX UNIVERSE BOND INDEX                | 2.2  | 9.7  | -0.1 |
| BOFA MERRILL LYNCH US HIGH YIELD INDEX | 5.9  | 4.4  | 6.2  |

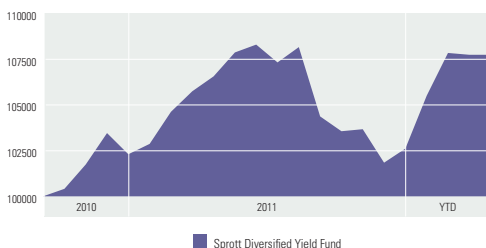
## Statistical Analysis<sup>2</sup>

| STATISTICS                                 | FUND        | BLENDED INDEX* |
|--|-------------|----------------|
| <b>Cumulative Return (Since Inception)</b> | <b>7.7%</b> | <b>15.8%</b>   |
| Standard Deviation                         | 4.9%        | 5.6%           |
| Sharpe Ratio                               | 0.75        | 1.42           |
| Total Positive Months                      | 15          | 15             |
| Total Down Months                          | 6           | 6              |
| Beta                                       |             | 0.72           |

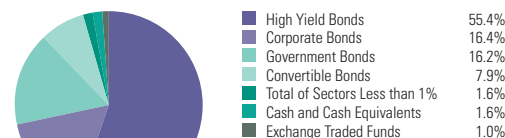
## Top Ten Holdings<sup>3</sup>

1. Government of Canada, Bond Series ZJ69, 3.25%, 06/01/21
2. Government of Canada, 1%, 02/01/14
3. Ford Credit CDA, 4.875%, 02/08/17
4. Sea Trucks Group Conv., 11%, 01/31/15
5. Vedanta Resource, 5.5%, 07/13/16
6. Beazley Group Ltd., 7.25%, 10/17/26
7. JBS USA LLC, 8.25%, 02/01/20
8. CIBC Capital Trust Tier 1 Notes, 9.976%, 06/30/2108
9. Eksportfinans Asa, 1.875%, 02/04/13
10. DJO Finance LLC, 10.875%, 11/15/14

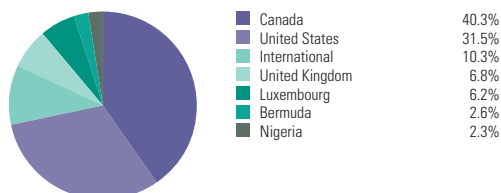
## Growth of \$100,000 Invested August 5, 2010<sup>1</sup>



## Sector Allocation<sup>3</sup>



## Country Mix<sup>3</sup>



# Sprott Diversified Yield Fund

## Q1 MARKET COMMENTARY

The Sprott Diversified Yield Fund Series A (the "Fund") gained 5.0% during the first quarter surpassing its blended benchmark which earned 3.9% during the same period.

The LTRO program (standing for Long-Term Refinancing Operation which is Europe's euphemism for quantitative easing) provided two rounds of liquidity injections which, while being far from a cure, stabilized the banking system which is ultimately the driver of positive European bond performance.

The main component of our strong performance was capital gains derived from successful trading within the high yield market and strong results from our tactical currency trading. Early in the year we were vocal about the risks of being passive investor in longer-dated government treasuries – a strategy that outperformed during 2011.

The Fund's significant excess performance over the DEX Universe Bond Index, which fell 0.2% during the quarter, illustrates the benefits of employing an active strategy.

Market sentiment continues to change quickly. During early March, there was a selloff in global core bonds as the market woke up to the realization of a rather healthy U.S. economy. The following week, we saw that move reverse meaningfully as other concerns came back into focus, prompted by weak PMI numbers out of both Europe and China. The prospect of a recession in Europe, which we continue to view as probable, caused Spanish government bond yields to blow out around 30 basis points on Wednesday and halted a two week long rally in the credit markets. Meanwhile, China's PMI numbers confirmed that their spring season for manufacturing and construction activities is off to a very slow start.

We have maintained our overall allocations to credit, however, as we continue to believe that spreads are attractive and the market has strong technical support. We have recently been more focused on directionally managing our portfolio durations as well, given the increased volatility in the long end of the treasury markets, and have had good success with this.

Our bias is to remain constructive on the growth outlook and risk assets, however, we have continued to pare back on some of our profitable positions. In particular, our risk budget continues to have a bias to being long credit, however, we have reduced our exposure over the course of the last two months.

**Please visit [www.sprott.com](http://www.sprott.com) for past commentaries.**

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\* 75% BofA Merrill Lynch US High Yield Index; 25% DEX Universe Bond Index.

<sup>1</sup> All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at April 30, 2012; e) 2010 annual returns are from 08/05/10 to 12/31/10. Blended Index is 75% of the BofA Merrill Lynch US High Yield Index and 25% DEX Universe Bond Index.

<sup>2</sup> Where applicable, all figures are annualized and based on monthly returns since inception. Risk-free rate and minimum acceptable rate calculated using rolling 90-day CDN T-bill rate. The rate of return or mathematical table shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund.

<sup>3</sup> Top ten holdings, sector allocation, and country mix as at March 30, 2012. Market commentary as at March 30, 2012. Sector weightings calculated as % of long portfolio, net of cash and bullion.