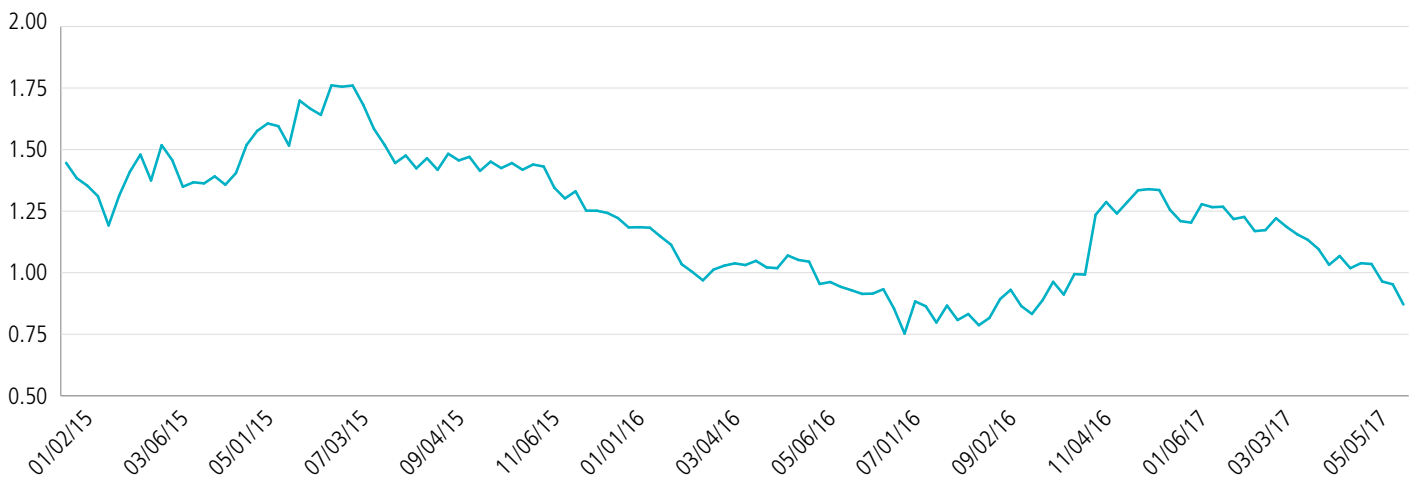


As we expected and wrote about in our commentary last month, market expectations for acceleration in economic growth and policy action out of Washington continued to deflate. After the Trump/Comey scandal mini-sell-off, we believe that there is little left in terms of expectations for substantial tax reform. Consensus seems to be forming around either nothing, or a smaller tax cut without a substantial change in the tax code. Additionally, short term growth expectations are back to where they were prior to Trump taking office. Indeed, since our last commentary the yield curve has kept on flattening (Figure 1), with 10 year treasury yields now hovering around 2.15%, a level not seen since November 2016.

This, in turn, has led investors to shun the “reflation trade” in favour of bonds, bond proxies (staples, utilities, REITs) and, particularly, “secular large cap growth stocks” such as Facebook, Amazon, Apple, Microsoft and Alphabet. This latter group has thus far contributed 33% of the total return in the S&P 500 while representing only 12% of the index’s total market capitalization.

Figure 1: Slope of the Yield Curve – U.S. (10y – 2y)



Source: Bloomberg.

While weaker short term growth is now embedded in investors’ expectations, consensus is still for growth to accelerate into 2018 (Figure 2). This could become problematic if the overhang from political uncertainty does not get lifted by then (see our March commentary for an in depth discussion), as 2018 EPS estimates would need to be taken down to reflect a slower economic growth environment in 2018 and beyond.

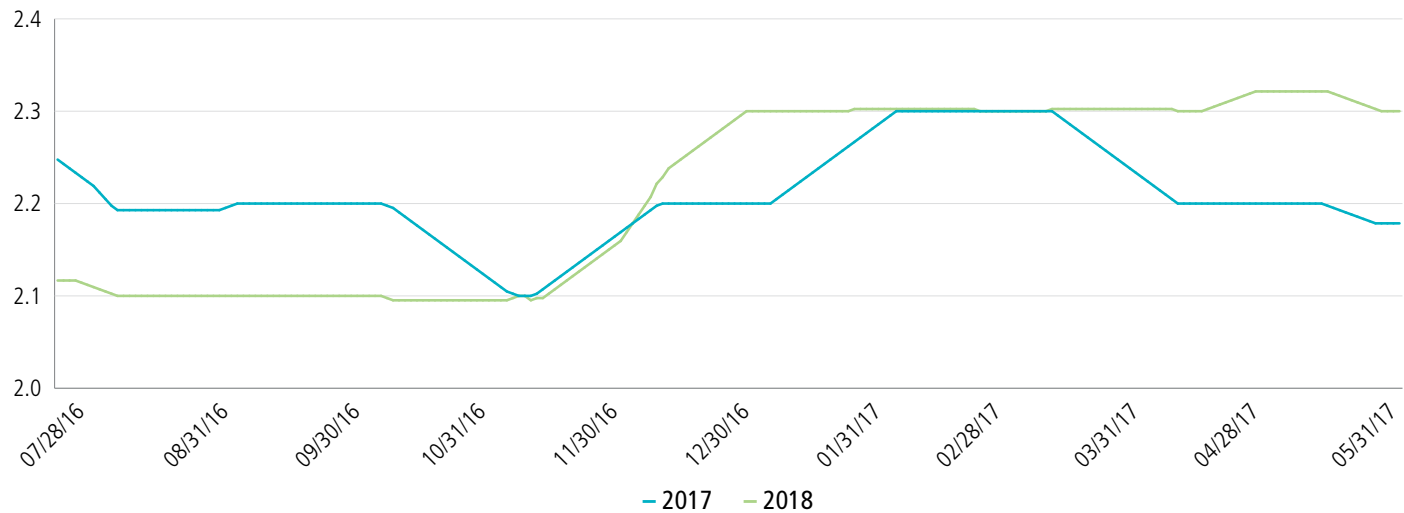
However, if we got to a point where companies decided to ignore the noise from Washington and went back to business as usual, we believe that we could see activity pick up, which, against the current backdrop of extreme pessimism, could prove to be a significant and tradeable rally in “reflation securities”. Given the current low valuations (back to pre-election levels in some cases), we are looking to selectively add exposure to those sectors, which we had reduced earlier this year.

Continued on next page >

SPROTT ENHANCED EQUITY STRATEGY

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Figure 2: Annual U.S. GDP Growth Forecast (Street Consensus)



Source: Bloomberg.

In our funds, because of the continued low volatility environment, we continue to use a combination of put selling on bond proxies to finance our market hedges. This strategy did well through the spring, significantly reducing the costs of our hedges while performing as expected on down days.

Our equity portfolio is currently dominated by positions we consider relatively “safe” in a slow growth environment including power generation and pipeline companies with both attractive current yields and excellent future growth profiles, technology companies boasting large contract backlogs and steady forward growth, as well as positions in global infrastructure, staples and cable/telecommunications.

We are increasingly worried by the low levels of implied volatility in the market, which are in large part a by-product of systematic volatility selling by a wide range of market participants. We know that at some point this extreme positioning and one-way groupthink will lead to a market event, where short covering will lead to a significant overshoot of volatility and undershoot of the market. As such, we remain extremely vigilant and maintain a net long volatility position to protect our investors from what we expect to be a relatively disorderly unwind when the next market decline inevitably arrives.

Until next month,

The Enhanced Strategy Team:

John, Colin and Etienne

SPROTT ENHANCED EQUITY STRATEGY

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COMPOUNDED RETURNS (%) AS AT MAY 31, 2017*

| | 1 MTH | YTD | 3 MTH | 6 MTH | 1 YR | 3 YR | 5 YR | 10 YR | ANNUALIZED INCEPTION |
|--|-------|-----|-------|-------|------|------|------|-------|----------------------|
| SPROTT ENHANCED BALANCED FUND, SERIES A | -0.1 | 1.8 | 1.3 | 3.2 | 4.9 | 1.7 | 4.3 | - | 4.1 |
| BLENDED INDEX ¹ | -0.2 | 4.5 | 2.3 | 5.7 | 12.1 | 8.8 | 11.3 | - | 10.7 |
| SPROTT ENHANCED BALANCED CLASS, SERIES A | 0.0 | 2.1 | 1.4 | 3.4 | 5.0 | 1.6 | - | - | 2.5 |
| BLENDED INDEX ¹ | -0.2 | 4.5 | 2.3 | 5.7 | 12.1 | 8.8 | - | - | 11.2 |
| SPROTT ENHANCED EQUITY CLASS, SERIES A | -0.3 | 0.9 | 0.7 | 2.6 | 4.3 | 1.4 | 5.2 | - | 4.9 |
| TSX/S&P 500 BLENDED INDEX ² | -0.5 | 5.4 | 2.4 | 7.3 | 16.7 | 11.6 | 15.5 | - | 14.4 |
| SPROTT ENHANCED LONG-SHORT EQUITY FUND L.P., CLASS A | 3.6 | 5.7 | 5.2 | 6.7 | 6.6 | -0.4 | 3.6 | 2.7 | 8.9 |
| TSX/S&P 500 BLENDED INDEX ² | -0.5 | 5.4 | 2.4 | 7.3 | 16.7 | 11.6 | 15.5 | 6.8 | 8.1 |
| SPROTT ENHANCED LONG-SHORT EQUITY RSP FUND, CLASS A | 3.5 | 5.4 | 5.1 | 6.3 | 5.9 | -0.8 | 3.2 | 2.4 | 4.3 |
| TSX/S&P 500 BLENDED INDEX ² | -0.5 | 5.4 | 2.4 | 7.3 | 16.7 | 11.6 | 15.5 | 6.8 | 8.0 |
| SPROTT ENHANCED U.S. EQUITY CLASS, SERIES A (USD) | 1.6 | 3.3 | 2.4 | 4.5 | 4.5 | - | - | - | -1.4 |
| S&P 500 TRI (USD) ³ | 1.4 | 8.7 | 2.6 | 10.8 | 17.5 | - | - | - | 10.1 |

SPROTT ENHANCED EQUITY STRATEGY

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* All returns and fund details are a) based on Class/Series A shares/units; b) net of fees; c) annualized if period is greater than one year; d) as at May 31, 2017; e) inception date for Sprott Enhanced Equity Class is 04/16/12; f) inception date for Sprott Enhanced Balanced Class is 09/13/13; g) inception date for Sprott Enhanced Balanced Fund is 04/16/12; h) inception date for Sprott Enhanced Long-Short Equity Fund L.P. is 04/07/04; i) inception date for Sprott Enhanced Long-Short Equity RSP Fund is 09/30/05; j) inception date for Sprott Enhanced U.S. Equity Class is 07/22/15.

¹ 40% S&P/TSX Composite TRI; 30% S&P 500 TRI CAD; 30% FTSE TMX Canada Universe Bond Index™ and is computed by Sprott Asset Management LP based on available index information.

² 50% of S&P/TSX Composite TRI; 50% of S&P 500 TRI CAD and is computed by Sprott Asset Management LP based on available index information.

³ Indices are computed by Sprott Asset Management based on publically available index information.

The risks associated with investing in a Fund depend on the securities and assets in which the Fund invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

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