SPROTT GLOBAL REAL ESTATE FUND

May 2017 Commentary

MARKET UPDATE

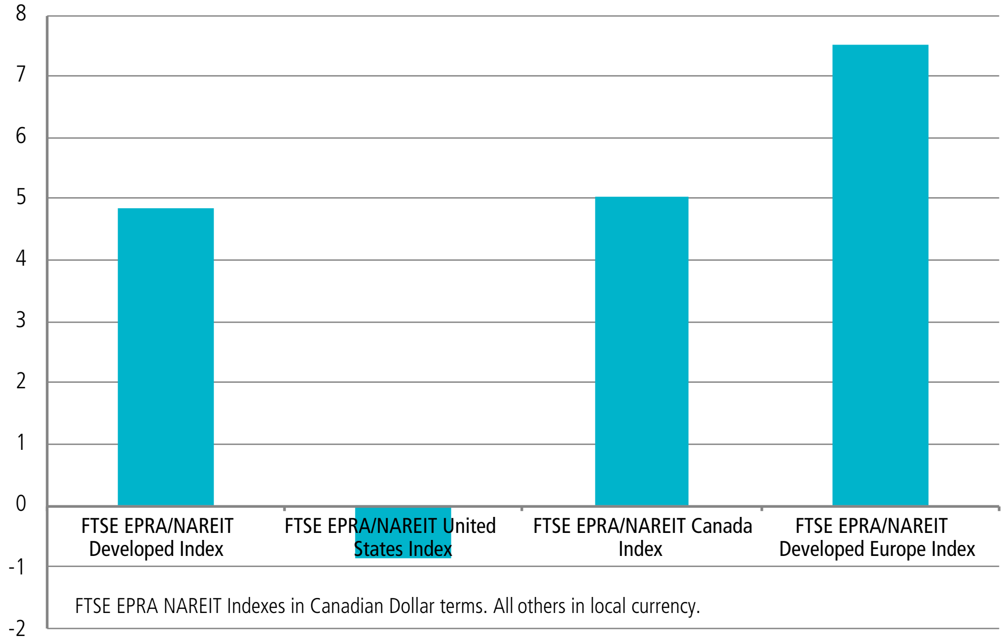
Europe was one of the worst performing regions for real estate equities in 2016. The FTSE EPRA/NAREIT Developed Europe Index underperformed the benchmark FTSE EPRA/NAREIT Developed Index by over 1300bps.

Exhibit 1: 2016 Total Return of FTSE EPRA/NAREIT Developed Index and Developed Europe Index

Source: Bloomberg

The underperformance began in earnest following the Brexit results in June 2016. The rising tide of populism elevated European political risks causing share price weakness. Following Brexit, European equities had to digest numerous important elections testing the European political will. Fortunately, the populist tide was halted and the lower European political risk discount resulted in a re-rate and outperformance of European real estate stocks. Fundamentals in Europe are also robust – in CBRE's Global Real Estate Market Outlook 2017, European cities accounted for 4 of the top 15 markets for expected office rent growth, 6 of the top 15 markets for expected retail rent growth, and 3 of the top 15 markets for expected industrial rent growth. With the ECB likely on hold through the balance of the year, the real estate outlook for Europe appears favorable. With that backdrop, European real estate has been among the best performing real estate geographies this year (see Exhibit 2).

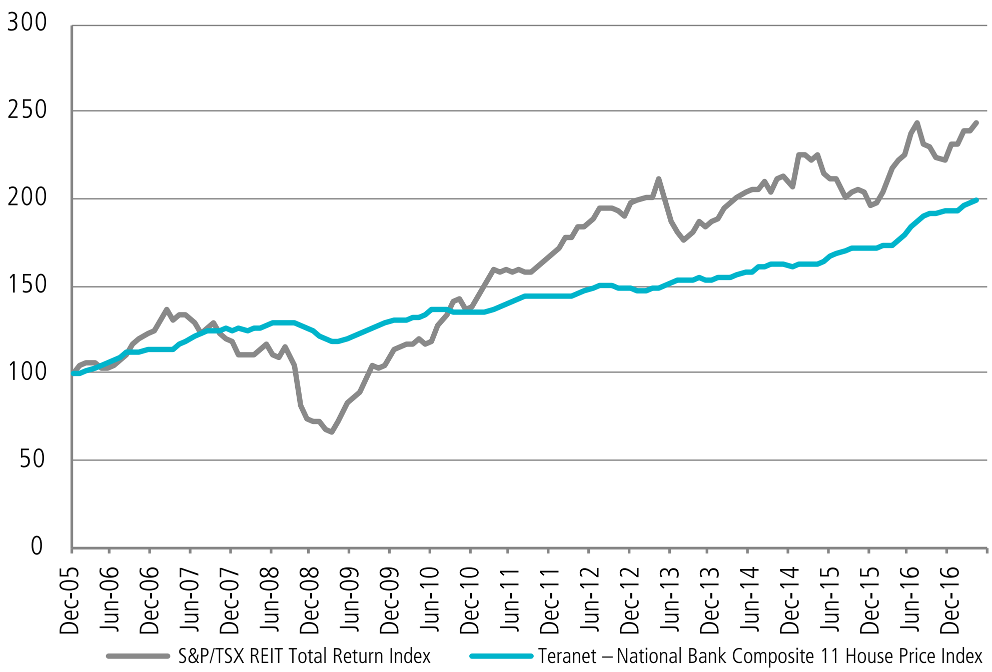
Exhibit 2: 2017 Year to Date May 31 Total Returns By Geography



Source: Bloomberg

It is virtually impossible to open a Canadian newspaper without reading articles worrying about Canadian real estate prices The chart below shows the S&P/TSX REIT Total Return Index and Teranet-National Bank Composite 11 House Price Index benchmarked at 100 at the end of 2005. While commercial and residential real estate are different asset classes, directionally home prices and Canadian REITs have trended together.

Exhibit 3: S&P/TSX REIT Total Return Index vs. Teranet-National Bank Composite 11 House Price Index

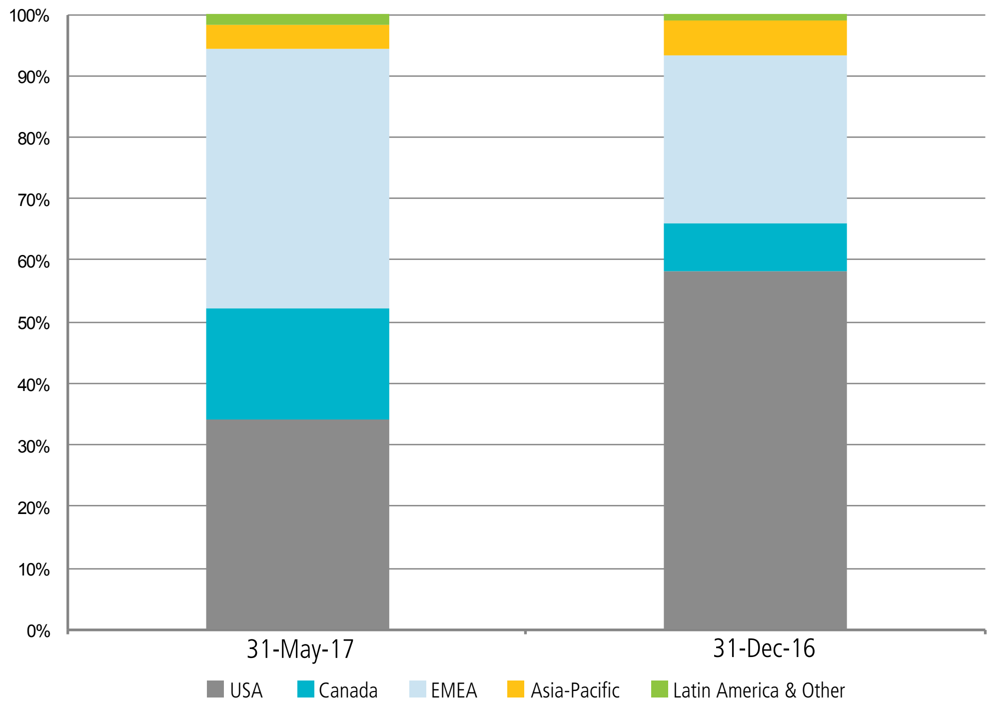


Source: Bloomberg, Teranet/National Bank

PORTFOLIO UPDATE

Sprott Global Real Estate Fund has positioned itself to be more exposed to Europe, mostly at the expense of the US. Within our US holdings, over 40% of the holdings are in specialized sectors such as data centers, student housing, and tower REITs, which are less exposed to the slowing fundamentals of other real estate sectors. Our Canadian exposure is primarily to defensive necessity-based retail, multifamily, and high quality office. The chart below illustrates our estimated weighted equity exposure to various geographies, by revenue, at year end 2016 and at May 31, 2017.

Exhibit 4: Estimated Portfolio Weighted Revenue Exposure



Source: Bloomberg, Company Reports

Relative to the end of 2016, the Sprott Global Real Estate Fund has initiated new positions in Brookfield Asset Management, CatchMark Timber Trust, CBL & Associates, City Office REIT, Citycon Oyj, Cominar REIT, Gazit-Globe, Green REIT plc, H&R REIT, Icade SA, Immobiliare Grande Distribuzione SIIQ S.p.A. (IGD), Inovalis REIT, Morguad North American REIT, Prologis Inc., and RioCan REIT. Positions which were exited included Bank of America Corporation, Boston Properties, CubeSmart, CyrusOne, Digital Realty Trust, Milestone Apartments REIT, Pure Multi-Family REIT, and Simon Property Group.

Top contributors from the fund YTD include ADO Properties (+99bps), American Tower (+80bps) and IGD (+67bps). Top detractors include GGP Inc (-39bps), NextDC (-29bps) and CubeSmart (-27bps). ADO Properties has benefited from continued tightness in the German multifamily market and a regulated double digit rental increase. IGD has benefited from a lower European political risk discount and strong earnings outlook. Despite strong operating performance, GGP has been weak due to a soft retail landscape and narrative around the challenges of the retail mall.

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US retail REITs continue to be a polarizing trade. On the one hand, valuations are cheap, trading at double digit discounts to Net Asset Value and underperforming the MSCI US REIT Index by ~19% in the case of shopping centres, and ~12% in the case of regional malls. On the other, the US retailers are going bankrupt at a record pace (in the first quarter retail bankruptcies are already on par with all of 2016 and on pace to be a record year), and the US appears to be at a tipping point in e-commerce which now represents 8.5% of total sales and continues to grow at ~15% per year. Against this backdrop, the US economy is not even in a recession. It is becoming increasingly difficult to see that anything should change the narrative on retail fundamentals in the near term, and this has caused us to cut our exposure to US retail from over 9% at year end to just over 3%.

PORTFOLIO OUTLOOK

In local currency terms, the US has been the poorest performer on a year-to-date basis. The US market has faced a combination of peaking fundamentals, peak funds flow, and a hawkish Federal Reserve. Historically US REITs have actually been more correlated with the shape of the yield curve (r=-0.62 since 2006) than 10 year interest rates (r=-0.26). As expected, the Fed hiked rates in June. We believe that the Fed tightening will lead to a continued flattening of the yield curve. We will be looking for opportunities in US stocks as valuations are starting to look attractive on a relative basis.

Europe continues to have attractive fundamentals and valuations are not demanding. With Germany being the only remaining expected election this year, we are sanguine about European political risks. In Canada, we are being opportunistic on a few names and view the overall market as fairly valued.

Chris Couprie
Associate Portfolio Manager

COMPOUNDED RETURNS (%) AS AT MAY 31, 2017[1]

	1 MTH	YTD	3 MTH	6 MTH	1 YR	ANNUALIZED INCEPTION (08/04/15)
SPROTT GLOBAL REAL ESTATE FUND	0.9	7.2	3.0	10.2	11.0	10.8
FTSE EPRA/NAREIT DEVELOPED TR INDEX (CAD)	-0.1	5.1	2.4	8.3	7.2	6.4

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* The index is 100% FTSE EPRA/NAREIT Developed TR Index (CAD) and is computed by Sprott Asset Management LP based on publicly available index information.

[1] 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 May 31, 2017; e) 2015 annual returns are from 08/04/15 to 12/31/15.

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