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Despite a sharp drop in equity markets on the second last day of February, the Sprott Growth Fund (the "Fund") enjoyed a successful month. The Fund returned 4.36% in February, while the S&P TSX Composite Total Return Index and the S&P 500 Index returned 0.25% and -2.19%, respectively. The Fund has produced a year-to-date return of 4.81%, compared to year-to-date returns of 1.41% and -0.81, respectively, for the aforementioned indices.

Other than one name discussed in further detail below, positive performance for the month can be credited predominantly to general increases in our larger holdings and appropriate sector allocations, rather than large moves in individual stocks. Our oil, gold, tech and uranium positions all contributed to performance. In addition, many companies reported strong earnings, which is encouraging in light of recent, post-month-end market volatility.

In what seems to be a recurring theme, the Fund benefited in February from another takeover, in which Cumberland Resources received a bid from Agnico-Eagle at a 25% premium. We mentioned Cumberland in an earlier commentary as a takeover candidate, and we are pleased with the premium they received. We subsequently eliminated our position in Cumberland to give us the flexibility to move into other M&A candidates.

Turning to recent market events, we believe that the various factors that fuelled volatility during the last two days in February and early March are not a threat to the current positioning of the Fund. While it was unfortunate to occur in such a short period of time, global equity markets were due for some profit taking after some very strong recent performance. Fear has temporarily usurped greed in the "fear-greed" market equation and so we will continue to buy our favourite companies, as we try to take advantage of market gyrations. Looking past the fear that has blinded many investors, we still see an array of positive market fundamentals. Strong global GDP growth, robust corporate earnings, low historical valuations, low interest rates, excess liquidity, strong balance sheets and waves of M&A activity are not conditions conducive to a major crash.

In fact, recent world events may only serve to accelerate interest rate cuts, which would have the impact of speeding up our "multiple expansion" theme in the Fund. Fast-growing companies would do well in this environment, provided their growth doesn't halt entirely. Since we see no evidence of the potential for a major stunt in growth in our holdings, we believe the Fund has the promise to thrive in an environment influenced by expansionary policy. Rate cuts would also likely help our gold and base metal holdings as well.

Peter Hodson, CFA
Senior Portfolio Manager

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