

Sprott Growth Fund

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The Sprott Growth Fund (the "Fund" – Series A) returned 2.38% in May, while the S&P/ TSX Composite Total Return Index and S&P 500 Index produced returns of 4.99% and 3.26%, respectively. Year-to-date, the Fund has generated a return of 14.07%, compared to year-to-date returns of 9.95% and 7.92% for the aforementioned indices. Since inception, the Fund has produced an annualized return of 26.28%, while its benchmark indices have returned 16.99% and 13.45%, respectively.

While the Fund had a positive month in May, we were somewhat unsatisfied with the performance of certain sectors within the Fund when compared with the market backdrop. Even though nothing in particular went wrong, our positions didn't perform as one might expect in a strong equity market. The continued strengthening of the Canadian dollar also tempered gains from our U.S. holdings.

During the month, the U.S. Fed talked about raising interest rates, a catalyst that we believe contributed to the poor performance of the Fund's gold sector. However, with recent U.S. economic weakness being reported (GDP at just 0.6% in the first quarter), we fail to see how the U.S. can hike interest rates at this point in the cycle, and so we will maintain our gold weighting, which we had increased earlier this year.

Our biggest disappointment in the month was seeing Aquantive Inc. get a huge bid from Microsoft Corp. after we had sold our position in the company. While a profitable investment, we were stunned at the price Microsoft Corp. was willing to pay for this company (an 85% premium). We certainly didn't see that one coming.

There were positives, however, largely due to M&A activity. Energy Metals Corp. announced it was in exclusive talks for a takeover, and its shares rose 28% during the month. It reached a deal with SXR Uranium One Inc. subsequent to month-end. FNX Mining Co. Inc., while not the direct subject of a takeover, benefited from bidding wars elsewhere in the nickel space, and rose 31% during the month. Reflecting the diversity of the portfolio, Absolute Software Corp. rose 32% in the tech space on yet-another extremely strong earnings report. Similarly, Axia Netmedia Corp. rose 18% on the month, also due to strong earnings. In biotech, ONYX Pharmaceuticals Inc. rose 16% on strong clinical cancer trial data. Smaller names such as Immersive Media Corp. and Call Genie Inc. have also performed extremely well as of late.

Going forward, we see a continuation of the themes currently dominating the market, such as decent earnings, excess liquidity and heightened merger activity. We will maintain a diversified portfolio highlighting strong growth companies in almost all sectors. We believe the market is experiencing an earnings multiple expansion, and as such, the Fund has a small cash position and no short positions at this time.

Peter Hodson, CFA
Senior Portfolio Manager

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