

Sprott Growth Fund

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Performance Summary

Annualized Returns for the period ending August 31, 2007

	1 Month	3 Month	YTD	1 Year	Since Inception
Sprott Growth Fund	-5.35%	-3.05%	10.59%	23.82%	19.53%
S&P TSX Composite Total Return Index	-1.29%	-2.23%	7.50%	15.95%	12.60%
S&P 500 Index	1.29%	-3.70%	3.93%	13.05%	8.69%

Comment

August proved to be very challenging for the Sprott Growth Fund (the "Fund"). With the decline in the US sub-prime market and collapse of the commercial paper markets, investors fled the small and mid-cap space, our area of focus in the Fund. While the Fund staged a strong recovery from intra-month lows, it still experienced a decline on the month as a whole.

First, we should outline some positives. We had raised a substantial portion of cash early in the month, and deployed it aggressively during the decline on August 16th. After 20 years in the business, we can recognize panic and we were glad to have some dry powder that day. While we did not expect to spend our cash that fast, a 600 point drop in the TSX intra-day proved too enticing. We may not have hit the short term bottom yet, but from a longer term perspective, some of the bargains that day may prove to be good purchases once the current market fear subsides into some semblance of normalcy (clearly we are not there yet). Frankly, we have no problem buying companies with \$600 million in net cash trading at six times earnings (Hudbay Minerals Inc.), nor do we have a problem paying seventeen times earnings for a company growing close to 100% with \$400 million in cash (Priceline.com Inc.). However, investors have a tendency to become exceedingly irrational in times of panic, and many only sell because "others are selling". We view times like these as a window of opportunity. Continuing the good news, Rally Energy Corp. received a \$7.30 cash takeover bid during the month, and we have eliminated the position to take advantage of other opportunities. This was our sixth takeover this year in the Fund, although we would expect the pace of takeovers to slow markedly in this market environment.

The bad news, of course, was that many of our positions declined regardless of whether the companies reported good news, contracts, strong earnings or whatever. Even in mid-cap land, it just didn't matter much, and we were happy to see the month close.

Going forward, we expect continued volatility. However, despite the panic, doom, and gloom, we cannot buy into a crash scenario at this time. Valuations are at their cheapest levels in 12 years, we have 4% GDP growth in the US, interest rates are heading lower (almost a fait accompli now), and global growth should be somewhat immune to a US slowdown. What's more, the average US recession lasts just 10 months, and the market seems to be pricing in a very bad economic scenario already. There is a chance, believe it or not, for good news, whether it is better-than-expected third-quarter earnings, faster-than-expected GDP growth, or simply an abatement of the fear mentality. We will not sell positions because it is the trendy thing to do. That is not how money is made in capital markets.

Peter Hodson, CFA
Senior Portfolio Manager

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