

The Diversified Bond Fund had its first negative month of 2017. While our credit and duration positions remained flat for the month, our US dollar exposure hurt us as the US dollar dropped versus the Canadian dollar, along with a rise in US yields.

Since peaking in March the US 10-year bond yield had been in a broad decline, as market participants adjusted their expectations of the speed of global rate hikes and inflation continued to remain stubbornly low. As the month came to a close, global bond yields seemed to be breaking out of this down channel. What changed? It appears that global central bankers have become concerned that financial conditions remain too easy at this juncture. The Fed, the ECB, the Bank of England and the Bank of Canada all nudged market expectations at the end of the month and this contributed to an increase in bond yields. The challenge going forward for all central banks is to square what has been stubbornly low inflation with globally improving employment markets. This is the so called Phillips curve tradeoff and central bankers believe it will portend higher wages and thus inflation and ultimately higher rates. So far this tradeoff appears to be weaker than in the past suggesting interest rates may not go as high as central bankers expect.

Such sharp reversals often portend a broader realignment of market expectations that may lead to the formation of new and unexpected trends. In light of this, we have decided to take a step back, and have reduced our credit and duration exposure significantly in favour of cash. Over the coming days/weeks, we will evaluate the market conditions and deploy our cash to take opportunities of the new market trends.

Longer term, our views about the mediocre growth of the US economy and a modest rise in US yields remain unchanged.

Scott, Chris, and Aly

SPROTT DIVERSIFIED BOND FUND

June 2017 Commentary

COMPOUNDED RETURNS (%) AS AT JUNE 30, 2017¹

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (08/05/10)
SPROTT DIVERSIFIED BOND FUND, SERIES A	-0.7	2.8	1.3	2.8	6.1	3.0	4.3	4.2
BLENDED INDEX*	-0.2	4.3	1.9	4.3	9.4	4.4	6.1	6.8

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* Blended Index is 75% of the BofA Merrill Lynch US High Yield Index and 25% FTSE TMX Canada Universe Bond Index™ and is computed by Sprott Asset Management LP based on 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 June 30, 2017; e) 2010 annual returns are from 08/05/10 to 12/31/10.

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