SPROTT DIVERSIFIED BOND FUND

May 2017 Commentary

The Diversified Bond Fund (the "Fund") delivered another positive return for investors in May with the return primarily driven by the credit exposure in the Fund. We noted in our last commentary that big returns we going to be tough to find in the months going forward as most asset classes seemingly are fully valued – including credit. So we were pleased to deliver another good month.

While the credit book performed well in May, the ability of the Fund to be nimble in adjusting the currency exposure of the Fund helped the Fund preserve its year-to-date returns. Indeed, the Fund benefited from a weaker Canadian dollar in April and the Fund took profit on that trade in May.

As we approach the half way mark of the year, it is clear that the first half of the year of investing has not delivered on early expectations. Indeed investors believed that interest rates were heading higher. While we believe that during the second half of the year, longer term interest rates will likely move modestly higher from current levels the bias in the short term may be to test lower yields. As we noted last month the combination of deleveraging by policy makers in China and a disappointing start by policy makers in the US has led to softer commodities and moderating global growth. Rather than delivering big changes in healthcare, taxes and infrastructure the new administration's policy changes are largely on the backburner. Without a significant catalyst to improve potential growth, the US economy will continue to plod along at a mediocre annual growth rate of around 2%.

Despite the slower growth and moderating inflation expectations, the Fed is likely to hike interest rates 0.25% in June. Discussions will also continue to focus on unwinding the Fed's balance sheet. Normally these factors alone would suggest a path to higher interest rates, however, it is worthwhile to note that despite hiking rates in March, financial conditions for the US economy are easier than they were in March. We believe that the Fed will continue to slowly increase short-term interest rates over the next year. The combination of modest global growth and high levels of global debt, however, will constrain the ability of the market to sustain meaningfully higher interest rates without changes to potential growth.

Scott, Chris, and Aly

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

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (08/05/10)
SPROTT DIVERSIFIED BOND FUND, SERIES A	0.3	3.5	2.3	4.4	6.9	3.3	4.4	4.4
BLENDED INDEX*	0.9	4.5	2.1	5.9	11.1	4.7	6.4	6.9

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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 May 31, 2017; e) 2010 annual returns are from 08/05/10 to 12/31/10.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk (Series T, Series FT, Series PT, Series PFT, Series QT, and Series QFT units only); concentration risk; credit risk; currency risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; substantial unitholder risk; tax risk; liquidity risk.

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