



# Sprott Focused U.S. Balanced Class

Sprott Corporate Class Inc.

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ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31

# 2016

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The annual management report of fund performance is an analysis and explanation that is designed to complement and supplement an investment fund's financial statements. This report contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-866-299-9906, by visiting our website at [www.sprott.com](http://www.sprott.com) or SEDAR at [www.sedar.com](http://www.sedar.com) or by writing to us at: Sprott Asset Management LP, Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, P.O. Box 27, Toronto, Ontario M5J 2J1. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

The investment objective of the Sprott Focused U.S. Balanced Class (the “Fund”) is to provide consistent income and capital appreciation by investing primarily in a diversified portfolio of U.S. equities and fixed-income securities.

As part of its investment strategy, the Fund will invest in U.S. equity and fixed-income securities, foreign securities and other mutual funds and may also:

- invest in private placements and indirectly in physical commodities other than gold through investments in Commodity ETFs;
- engage in securities lending and repurchase and reverse repurchase transactions as permitted by securities regulations to seek to generate additional income;
- engage in short selling in a manner which is consistent with the investment objective of the Fund; and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies.

### Risk

The risks of investing in the Fund are described in the Fund’s simplified prospectus. The Fund is suitable for those investors seeking the consistent income and capital appreciation potential of a diversified portfolio of U.S. equities and fixed-income securities. The Fund is suitable for investors with a low to medium tolerance for risk and volatility and a long-term investment horizon.

### Results of Operations and Recent Developments

The Fund returned 4.7% during 2016, compared to a 9.0% return for the blended S&P Total Return Index (70%), FTSE/TMX Canada Universe Bond Index (15%), and BofA Merrill Lynch US High Yield Index (15%) benchmark.

Two major macroeconomic developments were noted during 2016. These included Brexit and the election of a Trump administration – both of which were unexpected, affecting volatility and expected returns for risk assets.

In response to the macroeconomic events noted above, the equity portion of the Fund rotated out of defensive positions, and into more cyclical positions as the outlook for global growth improved. In addition, capital was re-allocated from Healthcare and the Consumer sectors into Energy and Financials in the second half of the year, as the outlook for these undervalued sectors improved.

The Financial and Energy sectors added the most to the equity portion of the Fund’s performance. The announced cut in oil production and the election of Donald Trump provided catalysts to drive the performance of these sectors, which had been languishing previously. Specific Healthcare and Industrial positions also contributed positively to the Fund’s performance.

From a sector standpoint, the Consumer sectors (Staples and Discretionary) detracted most from the equity portion of the Fund’s performance. Competitive intensity negatively affected several of the Fund’s positions in this space.

The fund’s allocation to the Sprott Diversified Bond Fund at the end of the year was 26.0%. In this portion of the Fund’s portfolio, the Manager reduced exposure to high yield bonds and raised its cash holdings to help protect the portfolio, in response to the macroeconomic developments in 2016 described above. In addition, exposure to U.K. and European Union based bonds in the post-Brexit environment was mitigated through the Fund’s use of currency hedging strategies.

Furthermore, asset allocation was the key contributor to the fixed income portion of the Fund’s performance for the period. The Manager was able to capitalize on opportunities from movements in the treasury and high yield markets. The Fund’s unhedged foreign currencies also benefited the performance in 2016, as the Canadian dollar fell.

Primary asset allocations for the Fund at year end were Equities (61.5%), Fixed Income (26.0%), and Cash and Cash Equivalents (12.5%).

The Fund’s net asset value increased by 20.2% during the period, from \$5.3 million as at December 31, 2015 to \$6.4 million as at December 31, 2016. This change was predominantly due to net share issuances of \$927 thousand.

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## Related Party Transactions

### MANAGEMENT FEES

The Fund pays a management fee to the Manager, at an annual rate of up to 1.85% for Series A, 1.80% for Series A1, 0.85% for Series F, 1.65% for Series P, 0.65% for Series PF, 1.55% for Series Q, 0.55% for Series QF, and is negotiated by the shareholders for Series I. The management fee is calculated and accrued daily based on the daily net asset value of the applicable series of the Fund, and is paid monthly. For the year ended December 31, 2016, the Fund incurred management fees of \$61,619 (including taxes). For the active series, the breakdown of the services received in consideration of the management fees, as a percentage of management fees, is as follows:

	Portfolio Advisory	Trailing Commissions
Sprott Focused U.S. Balanced Class – Series A	61%	39%
Sprott Focused U.S. Balanced Class – Series A1	39%	61%
Sprott Focused U.S. Balanced Class – Series F	82%	18%
Sprott Focused U.S. Balanced Class – Series F1	100%	–

Out of the management fees that the Manager received from the Fund, the Manager paid trailer commissions of \$8,734 during the year ended December 31, 2016, to Sprott Private Wealth LP, an affiliate of the Manager.

### OPERATING EXPENSES

The Fund pays its own operating expenses, which include, but are not limited to, audit, legal, custodial, filing and administrative expenses as well as shareholder reporting costs. The Manager pays certain of these expenses on behalf of the Fund and then is reimbursed by the Fund. At its sole discretion, the Manager may waive or absorb a portion of the operating expenses of the Fund. Amounts waived or absorbed by the Manager are reported in the Statements of Comprehensive Income. Waivers or absorptions can be terminated at any time without notice. For the year ended December 31, 2016, the Manager absorbed \$96,487 of expenses.

### OTHER RELATED PARTY TRANSACTIONS

The Fund relied on the approval, positive recommendation or standing instruction from the Fund's Independent Review Committee with respect to any related party transactions.

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the years shown.

The Fund's Net Assets per Share<sup>1</sup>

	Dec 31, 2016	Dec 31, 2015 <sup>4</sup>
	\$	\$
Series A		
Net assets, beginning of period	9.97	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.22	0.01
Total expenses	(0.32)	(0.03)
Realized gains (losses) for the period	(0.03)	(0.03)
Unrealized gains (losses) for the period	0.74	0.05
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.61</b>	<b>0.00</b>
<b>Distributions:</b>		
Return of capital	0.35	0.03
<b>Total annual distributions<sup>3</sup></b>	<b>0.35</b>	<b>0.03</b>
<b>Net assets, end of period</b>	<b>10.07</b>	<b>9.97</b>

	Dec 31, 2016	Dec 31, 2015 <sup>4</sup>
	\$	\$
Series A1		
Net assets, beginning of period	9.97	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.22	0.01
Total expenses	(0.24)	(0.03)
Realized gains (losses) for the period	(0.01)	(0.02)
Unrealized gains (losses) for the period	0.71	0.16
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.68</b>	<b>0.12</b>
<b>Distributions:</b>		
Return of capital	0.35	0.03
<b>Total annual distributions<sup>3</sup></b>	<b>0.35</b>	<b>0.03</b>
<b>Net assets, end of period</b>	<b>10.07</b>	<b>9.97</b>

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	Dec 31, 2016	Dec 31, 2015 <sup>4</sup>
	\$	\$
Series F		
Net assets, beginning of period	9.98	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.21	0.01
Total expenses	(0.12)	(0.01)
Realized gains (losses) for the period	0.00	(0.03)
Unrealized gains (losses) for the period	0.47	0.04
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.56</b>	<b>0.01</b>
<b>Distributions:</b>		
Return of capital	0.35	0.03
<b>Total annual distributions<sup>3</sup></b>	<b>0.35</b>	<b>0.03</b>
<b>Net assets, end of period</b>	<b>10.19</b>	<b>9.98</b>

	Dec 31, 2016 <sup>5</sup>
	\$
Series F1	
Net assets, beginning of period	10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.18
Total expenses	(0.09)
Realized gains (losses) for the period	(0.04)
Unrealized gains (losses) for the period	0.71
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.76</b>
<b>Distributions:</b>	
Return of capital	0.27
<b>Total annual distributions<sup>3</sup></b>	<b>0.27</b>
<b>Net assets, end of period</b>	<b>10.29</b>

1 This information is derived from the Fund's audited annual financial statements.

2 The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. Net assets and distributions are based on the actual number of shares outstanding at the relevant time. This table is not intended to be a reconciliation of beginning to ending net assets per share.

3 Distributions were reinvested in additional shares of the Fund or distributed in cash.

4 Information provided is for the period November 26, 2015 (launch date) for Series A, A1, and F to December 31, 2015.

5 Information provided is for the period from March 21, 2016 (first issuance) to December 31, 2016 for Series F1.

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## Ratios and Supplemental Data

Series A	Dec 31, 2016	Dec 31, 2015
Total net asset value (000s) <sup>1</sup>	\$418	\$150
Number of shares outstanding <sup>1</sup>	41,545	15,050
Management expense ratio <sup>2</sup>	2.80%	2.38%
Management expense ratio before waivers or absorptions <sup>3</sup>	3.01%	8.18%
Trading expense ratio <sup>4</sup>	0.23%	0.43%
Portfolio turnover rate <sup>5</sup>	114.38%	6.60%
Net asset value per share <sup>1</sup>	\$10.07	\$9.97

Series A1	Dec 31, 2016	Dec 31, 2015
Total net asset value (000s) <sup>1</sup>	\$502	\$218
Number of shares outstanding <sup>1</sup>	49,797	21,871
Management expense ratio <sup>2</sup>	2.14%	2.26%
Management expense ratio before waivers or absorptions <sup>3</sup>	3.58%	7.91%
Trading expense ratio <sup>4</sup>	0.23%	0.43%
Portfolio turnover rate <sup>5</sup>	114.38%	6.60%
Net asset value per share <sup>1</sup>	\$10.07	\$9.97

Series F	Dec 31, 2016	Dec 31, 2015
Total net asset value (000s) <sup>1</sup>	\$4,958	\$4,922
Number of shares outstanding <sup>1</sup>	486,361	493,329
Management expense ratio <sup>2</sup>	1.09%	1.18%
Management expense ratio before waivers or absorptions <sup>3</sup>	2.98%	6.82%
Trading expense ratio <sup>4</sup>	0.23%	0.43%
Portfolio turnover rate <sup>5</sup>	114.38%	6.60%
Net asset value per share <sup>1</sup>	\$10.19	\$9.98

Series F1	Dec 31, 2016
Total net asset value (000s) <sup>1</sup>	\$482
Number of shares outstanding <sup>1</sup>	46,825
Management expense ratio <sup>2</sup>	1.06%
Management expense ratio before waivers or absorptions <sup>3</sup>	1.08%
Trading expense ratio <sup>4</sup>	0.23%
Portfolio turnover rate <sup>5</sup>	114.38%
Net asset value per share <sup>1</sup>	\$10.29

1 The information is provided as December 31 of the years shown.

2 Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

3 The Manager may waive or absorb a portion of the operating expenses of the Fund. Waivers and absorption can be terminated at any time.

4 The trading expense ratio ("TER") represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The TER includes dividend expense and securities borrowing expense paid by the Fund in connection with securities sold short.

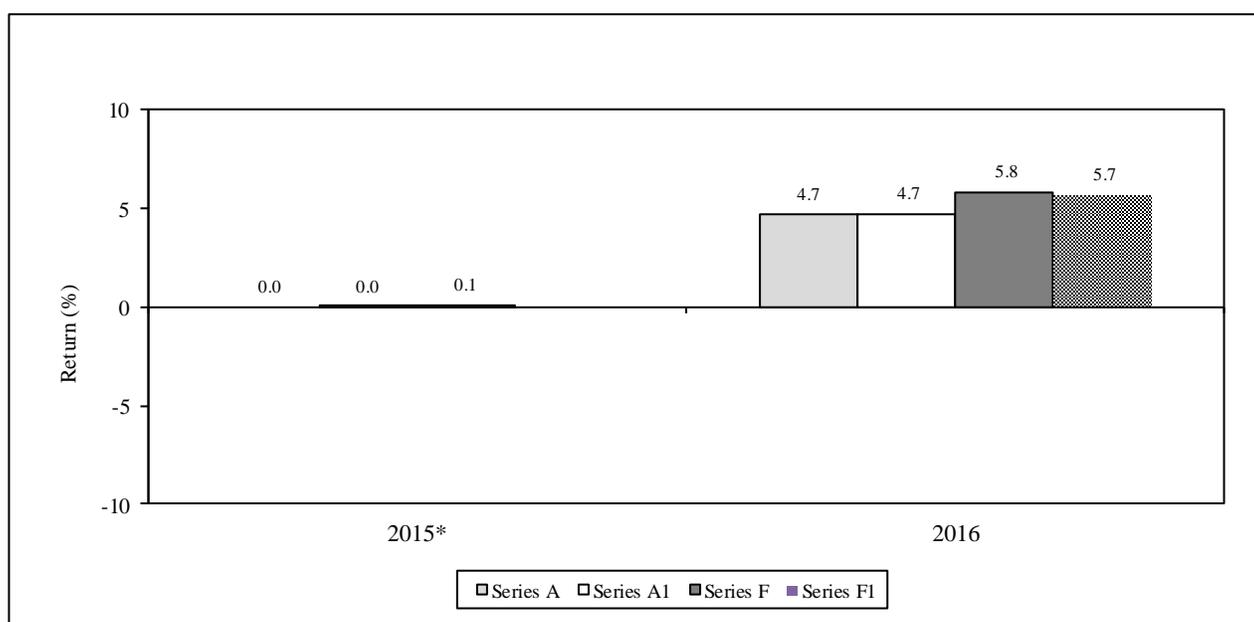
5 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

## Past Performance

The indicated rates of return are the historical total returns including changes in share values and assume reinvestment of all distributions in additional shares of the relevant Series of the Fund. These returns do not take into account sales, redemption, distribution or optional charges or income taxes payable by any shareholder that may reduce returns. Please note that past performance is not indicative of future performance. All rates of return are calculated based on the Net Asset Value of the particular Series of the Fund.

### Year-by-Year Returns

The following chart indicates the performance of each Series of the Fund for the previous twelve-month periods ended December 31 shown, unless otherwise noted. The chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each period.



\* Return from the period November 26, 2015 for Series A, A1 and F (not annualized).

\*\* Return from the period March 21, 2016 to December 31, 2016 for Series F1 (not annualized).

### Annual Compound Returns

The following table illustrates the annual compound total return for Series A, A1, F and F1 shares of the Fund for the periods shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of a blended index consisting of 70% S&P 500 Total Return Index, 15% FTSE TMX Canada Bond Index and 15% Bank of America Merrill Lynch US High Yield Index (the “Blended Index”). The S&P 500 Total Return Index is an index of 500 stocks actively traded in the United States chosen for market size, liquidity and industry grouping, among other factors, the FTSE TMX Canada Indices measure performance in the Canadian domestic bond market and the Bank of America Merrill Lynch US High Yield Index is a measure of the broad high yield market for corporate bonds. Since the Fund does not necessarily invest in the same securities or in the same proportion as the index, the performance of the Fund is not expected to equal its performance.

	1-Year	Since Inception*
Sprott Focused U.S. Balanced Class – Series A	4.7%	4.3%
Sprott Focused U.S. Balanced Class – Series A1	4.7%	4.3%
Sprott Focused U.S. Balanced Class – Series F	5.8%	5.4%
Blended Index	9.0%	9.4%
Sprott Focused U.S. Balanced Class – Series F1	-	5.7%
Blended Index	-	11.1%

\* Since launch date of November 26, 2015 for Series A, A1, and F and March 21, 2016 for Series F1.

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## Summary of Investment Portfolio

As at December 31, 2016

### Portfolio Allocation

	% of Net Asset Value
Long Positions	
Mutual Funds	25.9
Financials	18.4
Industrials	14.1
Information Technology	13.8
Health Care	9.4
Consumer Discretionary	9.2
Energy	3.6
<b>Total Long Positions</b>	<b>94.4</b>
Cash	5.3
Other Net Assets	0.3
<b>Total Net Asset Value</b>	<b>100.0</b>

### Top 25 Long Positions

Issuer	% of Net Asset Value
Sprott Diversified Bond Fund, Series I	25.9
Cash	5.3
Alphabet Inc.	4.1
UnitedHealth Group Inc.	4.1
Mastercard Inc.	3.9
Visa Inc.	3.6
Bank of America Corp.	3.5
Allergan PLC	3.3
JPMorgan Chase and Co.	3.2
Macquarie Infrastructure Corp.	2.9
Discover Financial Services	2.9
Raytheon Co.	2.8
Berkshire Hathaway Inc.	2.8
US Bancorp	2.6
The Home Depot Inc.	2.6
Canadian Pacific Railway Ltd.	2.3
Comcast Corp.	2.2
Cisco Systems Inc.	2.2
Intercontinental Exchange Inc.	2.0
Medtronic PLC	2.0
FedEx Corp.	2.0
BBA Aviation PLC	1.6
The Walt Disney Company	1.5
Waste Connections Inc.	1.5
Starbucks Corp.	1.5
<b>Total 25 long positions as a percentage of net asset value</b>	<b>92.3</b>

The Fund held no short positions as at December 31, 2016.

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Partnership. Quarterly updates of the Partnership's investment portfolio are available on the Internet at [www.sprott.com](http://www.sprott.com).

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## Corporate Information

### Corporate Address

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### Auditors

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