

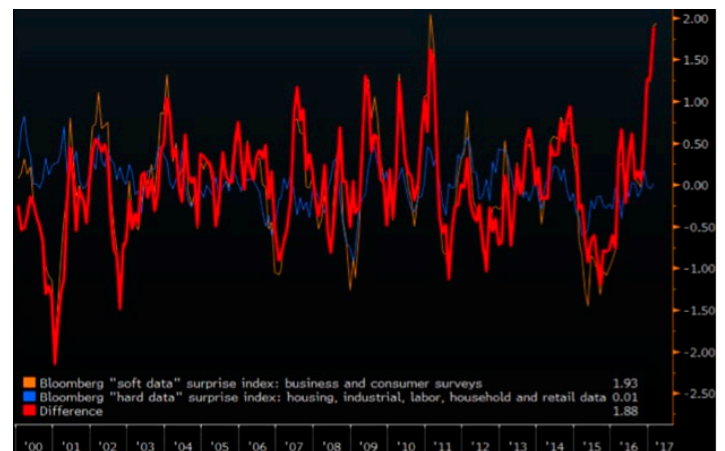
Precious metals resumed their upward climb during the first two months of 2017. During January and February, spot gold rose 8.34% (from \$1,152.27 to \$1,248.33) and spot silver increased 15.08% (from \$15.92 to \$18.32). During March, however, precious metals suddenly reversed course, with spot gold ending flat and spot silver declining 0.3%. Without question, the greatest variable affecting precious-metal performance during recent weeks has been market handicapping of the Federal Reserve (“Fed”) March 15 Federal Open Market Committee meeting. On 2/22/17, Bloomberg consensus expectations for a rate hike at the March meeting measured 34%. Ten trading days later (3/8/17), this percentage had swelled to 100%.

We attribute this swift shift largely to a short stretch of particularly impassioned Fed jawboning, book-ended by the FOMC’s two crucial thought-leaders, Vice Chairman William Dudley and Chair Janet Yellen. On 2/28/17, Mr. Dudley commented, “I think the case for monetary policy tightening has become a lot more compelling,” but then raised eyebrows with uncharacteristic frankness about U.S. asset prices: “There’s no question that animal spirits have been unleashed a bit, post the election. The stock market is up a lot.” By 3/3/17, Chair Yellen sealed the deal for a 3/15 hike in a speech to the Executives’ Club of Chicago, in which she remarked, “Indeed, at our meeting later this month... a further adjustment of the federal funds rate would likely be appropriate.” As avid students of Fed communication, we find the Fed’s tone change since 2/28/17 nothing less than abrupt. What factors account for this sudden shift to urgency following years of trademark caution? Might the Fed be reacting to strengthening economic data?

While “soft” economic data and sentiment measures have broadly improved since Trump’s election, “hard” economic statistics (historically favored by the Fed) have remained stubbornly weak. During the recent period of hawkish Fed rhetoric (2/28/17-3/3/17), soft data continued to surprise to the upside: the Chicago PMI registered 57.4 versus estimates for 53.5 (2/28); Conference Board consumer confidence came in at 114.8 versus estimates for 111.0 (2/28); and ISM indices for manufacturing (3/1) and services (3/3) totaled 57.7 and 57.6 respectively (versus estimates for 56.2 and

56.5). Hard data released during the same period, however, continued to disappoint: Q4 Gross Domestic Product (“GDP”) (2/28) was adjusted downward to 1.9% versus estimates for 2.1%; wholesale inventories (2/28) fell 0.1% versus estimates for an increase of 0.4% (pressures Q1 GDP); the U.S. trade deficit (2/28) surged to the second worst reading since 2008 (expanding to \$69.2 billion versus estimates for \$66.0 billion); and construction spending (3/1) declined 1.0% versus estimates for a gain of 0.6%. On 3/15, the Atlanta Fed’s GDPNow forecast for Q1 2017 collapsed all the way to 0.9%, after registering 2.5% as recently as 2/27 and 3.4% on 2/1. As shown in Figure 1, the spread between hard and soft economic data surprises has now expanded to a 17-year high (Bloomberg). Something has to give, and history overwhelmingly suggests soft data and sentiment measures are likely to recede dramatically in coming weeks. The Fed is well aware of these probabilities, yet still felt heightened urgency for a March hike.

**Figure 1: Spread between Bloomberg’s Hard Data and Soft Data Surprise Indexes (2000-Present)**



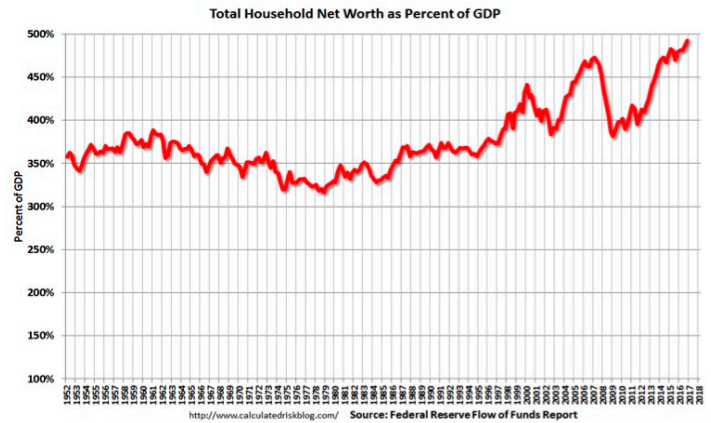
Source: Bloomberg.

Our explanation for newfound Fed resolve is that we believe the Fed is finally becoming exorcised over the accelerating bubble in U.S. financial asset prices. This past week (3/9/17), the Fed published its Q4 2016 Z.1 Report (Financial Accounts of the United States). According to the Fed, U.S. household net worth increased a staggering \$2.043 trillion during the final three months of the year. By way of context, during the same period, the U.S. Bureau of Economic Analysis informs us that

U.S. nominal GDP expanded by some \$180.20 billion. During Q4 2016, therefore, U.S. household net worth increased at a rate 11.33 times the rate of U.S. GDP growth. This ratio is patently absurd and seems to have commanded the Fed's immediate attention. Unfortunately, the Fed's apparent alarm over untethered U.S. financial asset prices is coming far too late to absolve FOMC participants of responsibility for yet another Fed induced boom-bust cycle. After all, the gaping detachment of U.S. household net worth from underlying U.S. productive output has been in full swing for almost eight years. Since Q1 2009, the Fed informs us that U.S. household net worth has increased (through 2016) an astonishing \$38.016 trillion (from \$54.790 trillion to \$92.805 trillion) during a period of time in which the BEA calculates a \$4.766 trillion increase in nominal GDP (from \$14.090 trillion to \$18.856 trillion). During the past seven-and-three-quarter years, therefore, U.S. household net worth has exploded at a rate exactly eight times the rate of underlying GDP growth.

As the S&P 500 Index sets new all-time highs on a weekly basis, investors may view discussion of Household Net Worth ("HHNW")/GDP ratios as little more than academic flagellation. We beg to differ. There are many relationships of which we are unsure, but we are quite certain no society can increase wealth eight times faster than output forever. Indeed, we attribute gold's ascent during the past 16 years to progressive recognition, at the margin, of precisely these imbalances. The Fed's Q4 2016 Z.1 Report suggests U.S. household net worth (\$92.805 trillion) has now reached an unprecedented 492% of GDP. To lend historical context, this ratio now rests 40% higher than the 353% average during the five decades prior to the Greenspan/Bernanke/Yellen era (Figure 2). Because the Fed has relied on growth in HHNW as a potent transfer mechanism for "stimulative" Quantitative Easing and Zero Interest Rate Policy policies, we would interpret current resolve to hike rates amid faltering economic growth as clear signal the Fed views reigning financial asset prices as increasingly problematic. Because the Fed has a highly checkered history in evaluating negative impacts of pierced bubbles (generally of their own creation), we offer some perspective on how precarious current U.S. asset valuations may be, and how far they may need to fall to rebalance the U.S. financial system toward historical norms.

**Figure 2: U.S. Household Net Worth as a Percentage of GDP (1952-2016)**



Source: Federal Reserve Flow of Funds Report.

It stands to reason that in a normally functioning economy, household net worth should expand by some factor of GDP-growth-plus-savings. The greater the savings rate, the greater the rate of capital formation, leading to higher household net worth. Our examination of history and a dose of logic suggest to us that a reasonable approximation of this relationship might be  $(\text{Real GDP Growth Rate} + \text{Net National Savings as \% of GDP}) / \text{Real GDP Growth Rate} = \text{Projected HHNW/GDP Ratio}$ . In Figure 3, we apply our representative formula to actual GDP and savings growth-rates in decades since 1950 to calculate a reasonable expected rate of wealth formation. During the 1950's and 1960's, as real GDP averaged 4% growth and net savings grew by over 10% of GDP on an annual basis, the U.S. was experiencing what we would view as high-quality capital formation. Our formula suggests any society which can build wealth at such prodigious rates should enjoy a net-worth-to-GDP ratio approaching four, which was roughly the case in the U.S. throughout these decades, as reflected in the Fed's reported ratios in Figure 2. In subsequent decades, our formula continues to generate ballpark-type approximations of the Fed's reported HHNW-to-GDP ratios, all the way until the 1980's, when declining growth-rates for both GDP and savings cause our model to begin to project declining HHNW-to-GDP ratios (Figure 3). Of course, at exactly the juncture at which eroding productivity of U.S. economic activity should have begun to weigh on the HHNW-to-GDP ratio, the Fed's increasingly loose monetary policies generated three waves of inflation in various financial

assets (stocks, then real estate, then everything) leading to the three upward spikes at the right of Figure 2.

**Figure 3: Real GDP Growth, Net Savings & Sprott Implied NW/GDP Ratio (1950-2016)**

	REAL GDP GROWTH RATE	NET SAVINGS/ GDP	PROJECTED NW/ GDP RATIO
1950-59	3.63%	10.26%	3.83
1960-69	4.28%	10.53%	3.46
1970-79	3.18%	8.39%	3.64
1980-89	3.24%	5.33%	2.65
1990-99	3.40%	5.15%	2.51
2000-09	1.54%	1.94%	2.26
2006-16	1.35%	1.74%	2.29

Source: Sprott Asset Management.

Since the turn of the millennium, as the intrinsic value of U.S. economic activity has been declining, the valuation of U.S. financial assets has been levitated by the easy-money policies of the Greenspan-Bernanke-Yellen Feds. As the U.S. economy has been generating less and less quality growth and savings, valuations of financial assets should have been declining, yet the Fed has interceded and intentionally fostered financial-asset inflation. Given the poor savings and growth rates of the past 16 years, our model suggests it would not be unreasonable for the ratio of HHNW-to-GDP to clear somewhere between 250% and 300%, implying a decline of between \$36 trillion and \$46 trillion in the aggregate value of the three major U.S. asset classes (stocks, bonds and real estate). To us, the only question is which asset class will bear the greatest readjustment burden in coming years.

As is always the case in assessing gold’s investment merits, critical variables are significantly long-term in nature. For example, we maintain high confidence that the eroding quality of U.S. economic growth guarantees that U.S. financial asset prices will eventually reflect their true eroding intrinsic value, to gold’s significant benefit. Along the way, such as during the S&P 500 Index declines of 2000-2002 (50%) and 2007-2009 (57%), gold has provided unparalleled portfolio protection as over-exuberant faith in U.S. financial assets has been punished. Should the Fed’s recent shift in rate-hike urgency prove to be motivated by concern for stretched

valuations of U.S. financial assets, as we suspect, it will be interesting to see just how far the Fed will go to press its message. We have long suggested the Fed’s reticence to raise rates has reflected concern for the instability of excessive U.S. debt loads, and now the Fed may finally be forced to raise rates out of concern for the instability of excessive U.S. equity valuations. Our long-term expectation of a “rock and a hard place” may be the immediate reality in which the Fed now finds itself. If so, gold’s role as productive portfolio diversifier is about to reassume center stage.

Perhaps the single greatest misconception about gold, especially in contemporary trading circles, is the erroneous belief that rising U.S. short-term interest rates are inherently threatening to gold’s prospects. We believe rising rates have far less to do with gold’s performance than the reasons why rates are rising and whether the Fed is deemed to be “in control.” After all, when gold exploded to all-time highs in January 1980, the Fed’s discount rate was 12% and fed funds were targeted at 14%. Many will object that the January 1980 experience is not germane, because conditions in 1979 were substantially unique (inflation, oil shock, Iran hostages and Hunt brothers). Conceding all decades are different, we turn to the more recent past for evidence rising rates can coexist with surging gold prices.

**Figure 4: Spot Gold Versus Upper Band of Fed Funds Target Rate (7/4/03-3/1/07)**



Source: Bloomberg.

In Figure 4, we plot the Fed's target fed funds rate versus spot gold from mid-2003 through early-2007. Between June 2004 and June 2006, the FOMC increased its target funds rate by 25 basis points at 17 consecutive meetings! During the span, fed funds more than quintupled, from 1.0% to 5.25%, yet spot gold climbed as much as 86% along the way (from a \$392.55 close the day before 6/30/04 liftoff to an intra-day high of \$730.40 on 5/12/06). Obviously, Fed tightening has far less reflexive impact on the gold price than commonly perceived. Should the Fed have the temerity to push fed funds along the confines of their most recent dot plot (three hikes in 2017, followed by three more in 2018), we would expect immediate upticks in default rates across a wide spectrum of sketchy components of the U.S. \$66 trillion credit-market debt pile. In an environment of long-overdue debt rationalization, we would expect gold's traditional profile, as a portfolio asset immune to both default and debasement, to garner significantly renewed investor enthusiasm.

Sincerely,

Trey Reik  
Senior Portfolio Manager  
Sprott Asset Management USA, Inc.  
203.656.2400

## SPROTT ETFs

Sprott ETFs provide investors with access to innovative and unique indexes that seek to outperform passive market cap-weighted offerings. Each Index is designed using specific **FACTORS** that **MATTER™** for a particular strategy. These customized factors are selected because they have historically shown correlation to stock performance.

### Each Index:

- Seeks to outperform purely passive representations of the gold and silver mining industry
- Uses transparent, rules-based methodology designed to overweight gold stocks with attractive investment merits relative to the other stocks in the index
- The stock selection and index weighting criteria were co-developed by Sprott Asset Management, a leading, long-time gold sector investor, and Zacks Index Services

# SGDM

NYSE ARCA

Sprott Gold Miners ETF

- Reconstituted quarterly
- Stocks weighted in the index based on quarterly revenue growth and long-term debt to equity
- The Fund seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Sprott Zacks Gold Miners Index (ticker symbol ZAXSGDM) (the "Underlying Index").

# SGDJ

NYSE ARCA

Sprott Junior Gold Miners ETF

- Reconstituted semi-annually
- Stocks weighted in the index based on revenue growth and price momentum
- The Fund seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Sprott Zacks Junior Gold Miners Index (ticker symbol ZAXSGDJ) (the "Underlying Index").

Performance as of March 31, 2017

FUND	CUMULATIVE				ANNUALIZED	
	1 Month	3 Months	YTD	Since Inception <sup>2</sup>	1 Year	Since Inception <sup>2</sup>
Sprott Gold Miners ETF (Net Asset Value)	-1.57%	6.76%	6.76%	-18.39%	7.82%	-7.22%
Sprott Gold Miners ETF (Market Price) <sup>1</sup>	-1.38%	6.64%	6.64%	-18.27%	7.92%	-7.17%
Sprott Zacks Gold Miners Index (Benchmark) <sup>3</sup>	-1.54%	-6.93%	6.93%	-16.74%	8.59%	-6.53%

Total Expense Ratio of Sprott Gold Miners ETF is 0.57%.

### TOTAL EXPENSE RATIO OF SPROTT GOLD MINERS ETF IS 0.57%

**Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 866.675.2639 for current month end performance.**

A fund's performance for very short time periods may not be indicative of future performance. The recent growth in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future.

<sup>1</sup> Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

<sup>2</sup> Inception date of 07/15/2014

<sup>3</sup> The Underlying Index was created by Zacks Index Services ("Index Provider") to provide a means of generally tracking the performance of gold and silver mining companies whose stocks are traded on major U.S. exchanges. An investor cannot invest directly in an index.

<sup>4</sup> The NYSE Arca Gold Miners Index (GDM) is a modified market capitalization weighted index comprised of publicly traded companies primarily involved in the mining of gold and silver in locations around the world. An investor cannot invest directly in an index.



## IMPORTANT DISCLOSURES & DEFINITIONS

**An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a Statutory Prospectus, which contains this and other information please contact your financial professional or call 1.855.215.1425. Read the Statutory Prospectus carefully before investing.**

**Sprott Gold Miners ETF and Sprott Junior Gold Miners ETF shares are not individually redeemable. Investors buy and sell shares of the Sprott Gold Miners ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.**

**The Fund is not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a diversified fund.**

Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable. These companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources and may lack management depth.

The Fund will be concentrated in the gold and silver mining industry. As a result, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments.

Funds that emphasize investments in small/mid cap companies will generally experience greater price volatility.

Funds investing in foreign and emerging markets will also generally experience greater price volatility.

There are risks involved with investing in ETFs including the loss of money.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day.

The Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF are new products with a limited operating history.

ALPS Portfolio Solutions Distributor, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

The underlying index for the Sprott Gold Miners ETF is rebalanced on a quarterly basis and a higher portfolio turnover will cause the Fund to incur additional transaction costs.

The underlying index for the Sprott Junior Gold Miners ETF is rebalanced on a semi-annual basis and a higher turnover will cause the Fund to incur additional transaction costs.