

Portfolio Manager Commentary - December 31, 2024

Global Markets Review

Global equity markets finished the year with another year of strong performance bolstered by a combination of moderating inflationary pressures, easing monetary policy, and resilient corporate earnings. Enthusiasm over the artificial intelligence (AI) theme drove significant gains in U.S. indices. Donald Trump's victory in the U.S. election also helped boost the domestic equity markets on the expectations of deregulation and a corporate tax cut despite uncertainties surrounding his proposed tariff and immigration policies. In global equity markets the MSCI World Total Return Index finished the full year with a 19.2% gain, while the S&P 500 rose 25.0%, climbing to all-time high in November. Communication Services (+40.2%) and Technology (+36.6%) were the best-performing sectors. Both sectors benefited from the development of AI themes. The S&P/TSX Composite was up 21.7% buoyed by Technology and Financials. In Europe, the STOXX 600 registered a 9.6% return for 2024. Spain, Italy, and Germany were the best-performing countries, gaining 20.0%, 18.9%, and 18.8%, respectively, while the U.K., Switzerland, and France all finished in positive territory, up 9.6%, 7.5%, and 0.9%, respectively.

Inflation continues to moderate, which has enabled global central banks to shift to accommodative monetary policies. In the U.S., inflation was 2.9% in 2024, while the unemployment rate remained relatively low at 4.1% as of the end of the year. The U.S. economy remains healthy and has managed to avoid a recession. However, the manufacturing PMI remained below 50 in the second half of 2024, which is an indicator of softness in the manufacturing sector. As the inflationary pressure meaningfully abated, the Federal Reserve started its long-awaited cutting cycle in September. The bond market was volatile in Q4 with the U.S. 10-year Treasury yield rising sharply from 3.6% in September (the lowest of the year) to approximately 4.6% by year end, which resulted in a steepening of the yield curve. The rebound in yields raised concerns over inflation returning due to President Trump's tariff and immigration policies, which has resulted in fewer rate cuts being priced into the market for 2025. Global bond markets, such as the U.K. Gilt and the German Bund, mirrored the sell off in U.S. Treasuries. In equities, growth outperformed value for both large cap and small cap, while large cap tech names were the primary contributors to the index performance even though they showed signs of losing momentum during the back half of the year. Strong performance was also seen from a broader group of stocks in 2024 relative to 2023, including strength Financials and Consumer Discretionary.

After kicking off the interest rate cutting cycle with a 50 bps cut in September, the Federal Reserve (the "Fed") cut interest rates by 25 bps each in the November and December meetings bringing the target range to 4.25%-4.5%. However, at the December meeting the Fed triggered a market sell-off after Fed Chair Jerome Powell emphasized a more cautious stance on the number of interest rate cuts expected in 2025. By the end of December, the Fed Funds Futures have priced in two additional 25 bps rate cuts in 2025, which was down from four cuts priced in as of September. Despite inflation coming down significantly, it remains slightly elevated relative to the Fed's 2% target. Therefore, we expect the Fed to tread lightly with interest rate cuts in 2025. On the political front, Donald Trump won the presidential election, and Republicans took control of Congress. The new administration's policies surrounding tariffs, immigration, regulation, and taxes will be the key to watch heading into 2025.

The Bank of Canada ("BoC") reduced its overnight policy rate to 3.25% after 50 bps cuts in both October and December in 2024. By year end of 2024, the BoC had made 175 bps cuts cumulatively since the start of its rate cutting cycle, which began in June. The BoC noted that the Canadian economy remains in excess supply, with labour market slack rising as population growth outpaced job creation. As for forward rate guidance, the BoC acknowledged that while further rate cuts in the future are expected, the timing and pace will still be guided by incoming data. The central bank signaled it would take a more gradual approach as the policy rate is now at the top end of its 2.25%-3.25% estimated range for the neutral rate. As the policy rates declined faster than in the U.S., the policy divergence resulted in Canadian dollar depreciation against the U.S. dollar. Moreover, rising unemployment rates, muted investment activities, and trade policy uncertainty from the Trump administration continue to weigh on the already fragile economic fundamentals.

The European Central Bank cut its benchmark interest rate by 25 bps in both October and December meetings bring the rate to 3.15%. President Christine Lagarde indicated more cuts are expected in 2025 saying current data suggest the direction of travel currently is very clear while also noting that data will still determine the pace and size of rate cuts, and that risks to inflation are not one-sided. Despite consecutive rate cuts, the European economy remains weak. Activity indicators such as eurozone manufacturing PMI finished the year in contraction territory. Meanwhile, the two major economic engines in the eurozone, France and Germany, experienced political instability during Q4. In France, Prime Minister Michel Barnier lost a no-confidence vote in December as other parties declined to back his budget, while no new parliamentary elections will be held until July 2025. In Germany, Chancellor Olaf Scholz dismissed Finance Minister in November causing the collapse of the three-party coalition government. In the U.K., the Bank of England left the policy rate unchanged at 4.75% in December after delivering a 25 bps cut in November. The central bank highlighted a more balanced labour market and upside risks to inflation in the near term.

Artificial intelligence remained the year's dominant investment theme fueling market enthusiasm and a transformative industry shift. The "Magnificent Seven" mega cap tech stocks delivered outsized returns, boosting the S&P 500. The seven names added about \$6 trillion of market cap in 2024. Meanwhile, broader market breadth, indicated by the advance/decline line for the S&P 500, suggests wider participation in the rally beyond large-cap tech. Consecutive Fed rate cuts, durability of the U.S. consumer, and optimism around pro-business policies from the Trump administration bolstered equity performance in sectors such as Financials. Outside of the U.S., equity market performance was mixed. European equities lagged on the back of elevated energy costs, sluggish export demand, and political instability in major economies like Germany and France. Japan registered another stellar return this year with the Nikkei 225 Total Return Index rising 21.3% on the continuation of foreign investor interest, monetary policy normalization, healthy wage growth, and improving corporate earnings and governance. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in October 2024, the global economy is projected to grow 3.3% in 2025, revised up by 0.1 percentage points from the July forecast. The outlook also highlights that persistent services inflation is impeding overall disinflation efforts, complicating the path to monetary policy normalization.

Looking forward to 2025, in our view, we expect to continue to see a widening of breadth in the market. Returns over the past 3 years have been dominated by the "Magnificent Seven" mega cap stocks. This trend peaked in mid-2024, and we have recently seen outperformance from a broader group of stocks, including mid-caps, particularly on the back of the U.S. election results in November. While we are still bullish on the Technology sector, broadening participation is positive for stock pickers and active management. In terms of the economy, we believe that a soft landing has been achieved and that we remain on a path back to normal in terms of both inflation and interest rates. The U.S. economy will continue to benefit from a strong consumer and continued growth in private sector capex, particularly around the themes of re-shoring, electrification, and artificial intelligence. The incoming policies under the new Trump administration will be the key to drive the market sentiment. Tax reform and deregulation would stimulate growth and benefit in particular domestic and cyclical sectors, while tariffs and trade policy uncertainties.

Portfolio Review

Brompton Global Dividend Growth ETF (the "Fund") was up 24.9% in 2024, outperforming the MSCI World Total Return Index, which was up 19.2%. The MSCI World High Dividend Yield Total Return Index was up 7.9% over the same period.

The Fund benefited substantially from our stock selection in Industrials and Financials, while top contributors in the Fund were Broadcom, Hitachi, and Walmart. Our Industrials picks benefited from secular themes, such as re-shoring and data center build outs for artificial intelligence. Key players in electrical & cooling solutions as well as aerospace engine & equipment manufacturing also registered solid performances. In Financials, our insurers have benefited from still-elevated rates and lower expense ratios. Our bank picks were buoyed by the long-awaited Fed monetary easing in the back half of the year along with a soft landing in the U.S. economy. Energy was also overweight and contributed to the outperformance relative to the benchmark. The midstream players in the Fund saw strong performance on the back of easing inflationary pressure and lower rates. Our Healthcare stocks also significantly outperformed relative to the benchmark, despite an underweight position. Boston Scientific posted strong returns during the year as its stroke-risk reduction treatment Watchman FLX met clinical trial goals.

Partially offsetting some of those gains was our underweight positions in Utilities, with renewables stocks lagging the benchmark after the U.S. election. Utilities continued to benefit from AI themes, especially power producers and renewable generators amid the need for more dependable and cleaner energy required by technology companies for data center

buildouts. Information Technology and Consumer Staples were also detractors to the Fund. Both registered positive returns and outperformed relative to the benchmark; however, the negative contribution was attributed to their underweight positions relative the benchmark.

During the year, we added weight to Financials and Consumer Discretionary, through funding sales of Materials, Utilities, and Consumer Staples. We made these changes to reflect our view regarding a U.S. soft landing, further rate cuts, resilient consumer spending on certain categories, and the election results. Technology and Industrials weights were trimmed to reflect a more favorable risk-reward profile after strong performances. Nevertheless, we remain positive on these two sectors and exposure to secular themes such as AI and electrification.

Annual Compound Returns ¹	1-YR	3-YR	5-YR	Since Inception ²
Brompton Global Dividend Growth ETF	24.9%	4.7%	7.2%	7.8%
MSCI World High Dividend Yield Total Return Index	7.9%	3.9%	5.4%	6.8%
MSCI World Total Return Index	19.2%	6.9%	11.7%	12.0%

(1) Returns are for the periods ended December 31, 2024 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the MSCI World Total Return Index ("MSCI Index") and the MSCI World High Dividend Yield Total Return Index ("High Dividend Index") (together, the "Indices"). The MSCI Index captures large and mid-cap representation across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country. The High Dividend Index targets companies from the MSCI Index (excluding Real Estate Investment Trusts) with high dividend income and quality characteristics and includes companies that have higher than average dividend yields that are expected to be both sustainable and persistent. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Indices, which have more diversified portfolios and include a substantially larger number of companies. Furthermore, the Indices performance are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses. The performance information shown is based on net asset value per unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(2) Inception Date October 17, 2018.

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