Brompton Global Dividend Growth ETF (TSX: BDIV)

BROMPTON FUNDS

Portfolio Manager Commentary - June 30, 2024

Global Markets Review

Global Equity markets demonstrated robust performance in the first half of 2024, propelled by solid corporate earnings. Particularly, enthusiasm over artificial intelligence drove significant gains in U.S. indices. Easing inflation and expectations of interest rate cuts by major central banks also led to a broadening of the bull market across regions. For the six-month period ending June 30, 2024, the MSCI World Index gained 12.0%. In North America, the S&P 500 rose 15.3%, with Technology (+28.2%) and Communication Services (+26.7%) as the best-performing sectors. The momentum of the AI megatrend continued to fuel the market rally. The S&P/TSX Composite was up 6.1%, buoyed by Energy and Materials. In Europe, the STOXX 600 registered a 9.5% return for the first half of this year. Italy FTSE MIB and Swiss Market Index gained 13.4% and 11.0%, respectively. Spain, Germany, the U.K., and France all finished the period in the positive territory, up 11.0%, 8.9%, 7.9% and 1.9%, respectively.

Global economic data for the first half of 2024 continued to show a complex picture, with inflation remaining a key focus for monetary policy decisions. U.S. inflation moderated further, reaching 3.3% for the May reading, but remained above the Federal Reserve's ("Fed") 2% target. The labour market showed signs of cooling, as the unemployment rate ticked up (4.0% in May), while remaining low relative to historical averages. The U.S. economy remains healthy and has thus far managed to avoid a recession. Meanwhile, manufacturing PMI entered May at 48.7, an indication of contraction when the number is below 50. Bond markets experienced volatility, with the U.S. 10-year Treasury yield fluctuating between 3.8% and 4.7% before settling at 4.4% by the end of June. Uncertainties surrounding the inflation outlook led to no rate cuts during the six-month period. Other global bond performances such as U.K. Gilt and German Bund also mirrored the U.S. treasury. In equities, growth continued outperforming value for both large cap and small cap. Value stocks showed signs of catching up as investors sought more balanced portfolios. The technology sector, particularly companies expected to benefit from AI, kept driving market performance. Energy sector caught up with the oil price rally in Q1 and gave back some gains in Q2 along with falling oil prices, as OPEC+ unexpectedly signaled plans to return some supply to the market in the second half of the year.

The Fed left interest rates unchanged in the 5.25%-5.5% range in May and June Federal Open Market Committee ("FOMC") meetings. The FOMC stated that it does not expect to reduce rates until it has "gained greater confidence that inflation is moving sustainably toward 2%". Even though inflation has come down substantially since June 2022, the Fed's projected 2024 core PCE was revised upward from 2.4% to 2.6%, indicating ongoing concerns about price stability. Market expectations for rate cuts have shifted considerably since late 2023. At the beginning of the year, the market expected six 25-basis-point cuts; however, the current Fed fund futures market is pricing in only two rate cuts by the end of 2024, with the timing remaining uncertain. The Fed's cautious approach reflects the complex economic landscape, balancing concerns about inflation with the desire to achieve a "soft landing" for the economy. We might see the next cut pushed out even further if current macro mix of inflation and labour market holds.

The Bank of Canada ("BoC") reduced its overnight policy rate by 25 basis points to 4.75% in the June meeting. This policy shift makes the BoC the first G7 central bank to ease so far this year. The communication noted that "monetary policy no longer needs to be as restrictive". Thus, the focus now turns to the pace of forward rate guidance, as the market will question how sustainable monetary easing will be. Furthermore, one rate reduction will not alleviate the pressure on household debt and weak business activities. The economic fundamentals remain fragile against a backdrop of declining labour productivity and muted investment, despite relieved wage and inflationary pressures. While the BoC has started its easing cycle, it's likely to proceed cautiously to ensure inflationary pressures don't rebound and to avoid reigniting the housing market.

The European Central Bank (ECB) cut the benchmark interest rate by 25 basis points to 4.25% in the June meeting. However, the Governing Council gave hawkish rhetoric that "domestic price pressures remain strong as wage growth is elevated and inflation is likely to stay above target well into next year". President Christine Lagarde did not outline a path of cuts or even acknowledge that more cuts are likely. Meanwhile, the ECB revised up its forecast for both headline and core inflation slightly for this year and next, implying continued uncertainties about inflation outlook. In the U.K., the Bank of England

(BoE) has not yet started monetary easing, holding the policy rate unchanged at 5.25%. The BoE noted that while inflation has moderated from its peak, it remains above the 2% target. The labour market also remains tight, although there are signs of cooling. In Switzerland, the Swiss National Bank cut rates by 25 basis points to 1.25% in the June meeting and highlighted that the underlying inflationary pressure has decreased. The rate cut is partly aimed at supporting economic activity in the face of strong Swiss Franc.

Investor sentiment continued to improve during the first half of 2024, fueled by resilient corporate earnings, eased inflation, peak policy rates, and the artificial intelligence hype. The broader U.S. index performance continues to be driven by AI names, mainly in Technology and Communication Services. Meanwhile, deeper market breadth, indicated by the advance/decline line for the S&P 500, suggests wider participation in the rally beyond just mega-cap tech names. For example, cyclical sectors such as Energy and Financials have also shown more widespread and resilient performance. As the dominant weight of "big tech" skews the U.S. equity market valuations, investment opportunities have unveiled outside of the U.S. for global investors, such as Europe and Japan. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2024, the global economy is projected to grow 3.2% in both 2024 and 2025, with the former revised up by 0.1 percentage point from the January forecast. Global inflation is forecast to decline to 5.9% in 2024 and further to 4.5% in 2025.

Looking forward to the back half of 2024, in our view, we believe global central banks will continue to closely monitor the key economic indicators such as inflation and wage growth to decide the path of monetary policy. Markets started the year with complacency about how quickly central banks, especially the Fed, would cut policy rates this year. But it is worth noting that even with some central banks commencing the rate-cut cycle, monetary policy should remain restrictive towards year end and the path towards central banks' target inflation is still challenging to policymakers. As a result, yields will continue to play an important role in dictating leadership between value and growth. While we remain positive on the Technology sector and favour AI themes, we believe leadership in equity market performance should broaden out, geopolitical risks should arise in the next 6 months, namely the European Parliament election, the U.S. Presidential election, and the ongoing conflict in the Gaza Strip. In this vein, Brompton expects increased volatility from low levels and believes that investors will be well-served by strategies that have historically demonstrated lower volatility than the market, such as dividend growth and covered call strategies.

Portfolio Review

The Brompton Global Dividend Growth ETF (the "Fund") was up 16.9% for the first half of 2024, outperforming the MSCI World High Dividend Yield Index, which was up 3.9%. The MSCI World Index was up 12.0% over the same period.

The Fund benefitted from our selections in Industrials and Financials. Our top contributors were General Electric, Hitachi and Trane Technologies. Our industrial picks benefitted from some large secular themes, the biggest of which was the anticipation for increased data center build outs for Artificial Intelligence, benefitting companies that provide electrical and cooling solutions. Secondly, the longer lead time for new airplanes also helped as older planes need to run longer, benefitting aerospace engine & equipment makers with increased after-market, higher margin revenue. Our picks in financials benefitted from increased confidence in a soft landing and higher comfort that a major credit event is unlikely to occur. Finally, the Fund was overweight insurers whose investment portfolios have benefit from higher rates and could continue to do so with expectations of fewer rate cuts this year.

Partially offsetting some of those gains was our underweight positions in Technology and Utilities. For tech, we prefer stocks with a higher dividend yield, thus missing out on some chips name as the rally in semiconductor stocks continued. Some of the less in favour chip names rallied in anticipation that they will participate in the AI boom as well. Utilities suddenly turned into AI beneficiaries during the second quarter, from the expected increased demand for power from data centers. This benefitted several power producers and renewable generators given the need for dependable, cleaner energy that the tech companies would require.

During the year, we added to positions in Financials and Industrials, funding them through sales in Utilities. We made these changes to reflect our view regarding the higher potential for a soft landing and potentially higher for longer interest rates with rate cuts being delayed and number of rate cuts during the year being reduced. We therefore reduced our exposure to interest sensitive and defensive sectors.

Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Global Dividend Growth ETF	16.9%	22.4%	6.1%	7.3%	7.3%
MSCI World Index	12.0%	20.7%	7.4%	12.3%	11.9%
MSCI World High Dividend Yield Index	3.9%	9.3%	4.2%	6.3%	6.7%

(1) Returns are for the periods ended June 30, 2024 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the MSCI World Index ("MSCI Index") and the MSCI World High Dividend Yield Index ("MSCI 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 MSCI 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 invests in global dividend growth companies with market capitalization of at least $10 billion. It is therefore not expected the Fund's performance will mirror that of the Indices which have more diversified portfolios. Further, the Indices 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. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund on its units in the period shown were reinvested at net asset value per unit in additional units of the Fund.

(2) Inception Date October 17, 2018.

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