

Portfolio Manager Commentary - March 31, 2023

Global Markets Review

Global equity markets registered positive returns during the first quarter of 2023, despite the global banking crisis in March that fueled a sell-off in the Financials sector. Decelerating inflation, potentially peak interest rates, and China's reopening, sent major stock indices higher. The MSCI World Index gained 7.9%. Information Technology rallied 21.2% and was the top performer, while Energy was the bottom-performing sector (-3.1%). In North America, the S&P 500 rose by 7.5%, buoyed by Information Technology and Communication Services. The S&P/TSX Composite added 4.6%, also boosted by Information Technology (+26.5%). In Europe, the STOXX 600 returned 8.6% for the quarter. Major European indices also finished the quarter in positive territory. Italy FTSE MIB and France CAC 40 gained 15.1% and 13.4%, respectively. Spain, Germany, Switzerland, and the U.K. were up 12.8%, 12.2%, 5.1% and 3.6%, respectively.

Global economic data was mixed during the quarter. Inflation has materially come off the peak since June 2022 (9.1%) to 6.0% for the February 2023 reading, supporting the market expectations that the monetary tightening cycle may end soon. Labour markets remain resilient, with unemployment rates still well below 4% and hourly wage growth decelerating. However, other major economic indicators in the U.S. warn that economic growth remains weak. Manufacturing PMI largely retreated in Q4 2022 and entered March 2023 at 46.3, an indication of contraction if readings are below 50. Global bond markets also finished up in the first quarter of 2023, even though rate volatility remained elevated. The U.S. 10-year Treasury yield broke above 4% on stickier-than-expected core inflation measures in early March 2023, but quickly dropped following the market fear of a banking crisis due to the collapse of Silicon Valley Bank. The U.S. dollar was largely weak against most G10 currencies on the Federal Reserve's more dovish tilt. Following a robust gain in Q4 2022, most equity markets continued the upward trend in Q1 2023, with investors factoring in the end of central bank tightening, deceleration of inflation, and China's reopening. Information Technology, Communication Services, and Consumer Discretionary, the three bottom-performing sectors in 2022, have recovered and gained strong momentum in Q1 2023. From a factor perspective, the decline in bond yield supported growth stocks' outperformance against value during the quarter.

Central banks in developed economies started to deliver more dovish stances of their monetary policy as inflationary pressure abated. The Federal Reserve raised interest rates by 25 basis points at both 2023 February and March Federal Open Market Committee ("FOMC") meetings, sending the target rate to the 4.75%-5.00% range. As the Fed has slowed its pace of hikes, investors expect that cooler inflation data and the turmoil surrounding regional banks should end the tightening cycle soon. The Fed funds futures market is pricing in the terminal rate at 5%, followed by around 60 basis points of cut in the second half of the year. Given that inflation readings remain well above the Fed's 2% target and additional hikes add to the banking system stress, we believe the expectations of a dovish Fed pivot will continue helping market sentiment, but a discussion on the trajectory of rate cuts is premature.

The Bank of Canada (BoC) maintained its overnight policy rate at 4.5% in March 2023. This is the first meeting that hasn't resulted in a rate increase since January 2022. Since that time, the BoC hiked at eight consecutive meetings for a cumulative tightening of 425 basis points. However, the central bank does not rule out the option to increase the policy rate further if needed to return inflation to the 2% target. With the easing of inflation, there is a higher chance that this conditional pause should be sustained, translating to a temporary relief on household debt.

The European Central Bank (ECB) continued raising the benchmark interest rate by 50 basis points at both February and March 2023 meetings to 3.5%. The Governing Council will likely keep hiking interest rates to tame inflation, as core measures reached a new record high during the quarter. The concern over financial stability (i.e. collapse of Credit Suisse) would put ECB's rate hike in a complicated position, where delaying the tightening may have a negative impact on inflation expectations, resulting in more hikes necessary at a later stage. On the positive side, energy prices should continue to moderate due to falling wholesale energy prices and government support measures. Meanwhile, the Bank of England (BoE) also stepped down its pace of tightening by a 50-basis-point increase in February 2023 and a 25-basis-point increase in March 2023 to 4.25%. The communication suggests that the Monetary Policy Committee would not maintain a bias towards tighter policy, while the upcoming decision will be fully data dependent.

The first quarter of 2023 started with a recovery rally in some of the worse performing sectors in 2022, such as Information Technology. Most central banks have slowed their paces of monetary tightening. However, the global banking industry has once again been thrown into turmoil in March with the failures of Silicon Valley Bank, Silvergate Capital, and Signature Bank in the U.S., as well as the takeover of Credit Suisse by UBS Group at the behest of regulators in Switzerland. While there were specific issues

impacting each of these entities, these recent failures have highlighted the risks associated with the rapid move higher in interest rates over the past year as central banks around the world have moved swiftly to tighten policy in response to high inflation.

We continue to believe that a volatile market should persist for the rest of 2023. Inflationary pressure remains high, especially the core measures. The labour market is still tight. Share buyback black out window, Q1 earnings and subsequent economic data releases could act as a catalyst for volatility expansion. Even though many investors conclude that the systemic risk is minimal in the financial sector, any near-term development in U.S. regional banks' failure and the acquisition of Credit Suisse could still add turbulence to the market. As the timing of ending monetary tightening remains unclear among global central banks, value and growth could change leadership frequently in the rest of the year. Regardless, this inflationary environment should keep favouring companies that demonstrate resilient balance sheets, generate inflation-resistant cash, and maintain strong margin levels. Furthermore, in high volatility market regimes, strategies that lower portfolio correlations, such as investing in low volatility styles and preferred shares, should enhance risk-adjusted returns. Additionally, Brompton's ability to lean on its covered call writing program to harvest volatility risk premia augments risk-adjusted returns, lowers portfolio volatility, and aids in funding distributions.

Portfolio Review

Brompton Global Dividend Growth ETF (the "Fund") was up 2.1% during the first quarter of 2023, outperforming the MSCI World High Dividend Yield Index that was up 1.7% over the same period. The MSCI World Index was up 7.9%.

The Fund benefited from being overweight in Consumer Discretionary stocks as well as security selection in Consumer Staples. Our best performers all came from Europe, with LVMH, ASML, L'Oreal and Richemont being our top performers, up over 20% each this quarter. We continue to believe that Europe will be an area of outperformance due to improving fundamentals. A combination of falling gas prices, better than expected economic data, the return of Chinese consumers to Europe and a wide discount in valuation vs the US (~30%) should all help European equities outperform. We believe that the banking crises in the region is bank specific, and the leading companies in Europe will continue to have access to credit.

Offsetting some of the gains was our underweight position in Technology stocks, which was the best performing sector during this quarter. Expectations of a 'soft landing' and a pause by the Federal Reserve on its rate hiking path during January and February, and the rotation into high quality tech as a perceived safe haven in March led to its outperformance. The euphoria around artificial intelligence also boosted technology stocks such as Microsoft.

During the quarter, we added positions in Communications, Industrials, Financials and Materials, while trimming positions in Healthcare, Utilities and Staples. We remain overweight Energy as the rising demand for oil is aided by the China reopening and the production cuts from Saudi Arabia. We also remain overweight Industrials, particularly in companies that enable secular growth trends such as decarbonization and electrification.

Laura Lau, CIO

Michael D. Clare, SVP & SPM

| Annual Compound Returns ¹ | YTD | 1-YR | 3-YR | Since Inception ² |
|--------------------------------------|------|--------|-------|------------------------------|
| Brompton Global Dividend Growth ETF | 2.1% | (9.3%) | 10.2% | 3.5% |
| MSCI World Index | 7.9% | (6.5%) | 17.0% | 9.1% |
| MSCI World High Dividend Yield Index | 1.7% | (3.4%) | 12.8% | 6.1% |

⁽¹⁾ Returns are for the periods ended March 31, 2023 and are unaudited. The following table shows the ETF's compound return for each period indicated compared with the MSCI World Index (the "MSCI Index") and the MSCI World High Dividend Yield Index (the "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 ETF invests in at least 20 global dividend growth companies with market capitalization of at least \$10 billion. It is therefore not expected the ETF'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 ETF is calculated after deducting such fees and expenses. Past performance does not necessarily indicate how the ETF will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the ETF on its units in the period shown were reinvested at Net Asset Value per unit in additional units of the ETF.

⁽²⁾ Inception Date October 17, 2018.

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