Brompton Global Dividend Growth ETF (TSX: BDIV)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2019

Global Markets Review

Global markets finished the year with strong performance. Almost all stock markets and asset classes enjoyed double digit returns for 2019. The MSCI World Index gained 28.4% with the Information Technology sector as the best performing sector, gaining 48.1% during the year. In North America, the S&P 500 was up 31.5%, while the S&P/TSX Composite was up 22.8%, both of which were also led by strong performance from the Information Technology sector. In Europe, the STOXX 600 returned 27.7% for the year, led by France and Switzerland, where the CAC 40 and SMI were up 30.5% and 30.2%, respectively. Germany's DAX Index gained 25.5% amid concerns over slowing economic growth, while Spanish and U.K. equities also finished the year with double digit gains as the IBEX 35 increased 16.5% and the FTSE 100 returned 17.2% for the year.

According to the latest forecast by the International Monetary Fund, the global economy is expected to grow 3.4% in 2020, a modest pickup from 2019's projected growth rate of 3.0%. Growth expectations were driven by a few topical issues. At the top of the list was progress on the U.S.- China trade war. During the month of December, expectation of a phase one trade deal between the U.S. and China partially alleviated long standing trade tensions between the two nations. As part of the trade deal, tariffs that were set to take effect on December 15th on about US$160 billion of consumer goods were averted; in exchange, China was expected to increase its purchases of American farm goods. The trade deal demonstrated compelling evidence of progress made by both sides and renewed market participants' confidence in global growth. Second, employment numbers and jobless claims are being closely monitored by investors for any signs of weakness. Employment and consumption continue to be robust and jobless claims remain at decade lows as service sectors across the globe kept labour markets buoyant and wage growth healthy. Lastly, Brexit-related fears subsided towards the end of 2019 after the U.K. held its third general election in four years in December, which resulted in Boris Johnson's Conservative party securing a parliamentary majority. We expect progress to be made on Brexit negotiations before the January 31st deadline and we anticipate 2020 to be a year of transition for the U.K.

Market performance and sentiment were also driven by central bank policies in 2019. In the U.S., the Federal Reserve (the "Fed") cut the policy rate three times during the year, reducing the target range by 75 basis points to the current range of 1.50% to 1.75%. Slowing growth in China and Europe, trade policy developments and geopolitical risks were cited as areas of concern, which drove the Fed's decision to cut interest rates. During the most recent policy meeting in December, Fed Chair Jerome Powell signaled that they would likely keep rates steady through 2020 amid a solid economy. We believe that the bar for Fed action is extremely high in a U.S. presidential election year.

In Europe, Christine Lagarde assumed office on November 1, succeeding former European Central Bank (the "ECB") President Mario Draghi. During 2019, the ECB cut the deposit rate by 10 basis points to minus 0.5%. The ECB has also resumed its quantitative easing program in November purchasing bonds at a rate of €20 billion a month for as long as necessary to hit its inflation goal of just below 2%. Inflation averaged 1.2% in 2019.

Looking forward, we expect positive investor sentiment to continue to drive strong equity performance in 2020. On the U.S.-China trade front, we expect the U.S. and China to discuss the potential of a phase two trade deal after the signing of the phase one deal in January. In terms of central bank policy, we expect 2020 to be a quieter year for monetary policy as the Fed and the ECB will be maintaining a dovish stance. Effects of the three consecutive rate cuts implemented by the Fed and one cut by the ECB should begin to flow through to the economy in 2020. Lastly, in terms of volatility, we anticipate the 2020 U.S. federal election to be accompanied by slightly higher volatility during the year. Geopolitical tension between the U.S. and the Middle East could also be a source of volatility that we will be paying close attention to.

Portfolio Review

Brompton Global Dividend Growth ETF (the "Fund") was up 22.8% during 2019. This compares to the MSCI World Index, which was up 28.4%.

The Fund benefited from being defensively positioned for the majority of 2019. Its overweight positions in Real Estate and Utilities, in addition to its underweight position in Industrials, were positive contributors to the Fund's performance. Our positive view on Real Estate and Utilities in an uncertain macro environment in combination with low interest rates propelled us to overweight the two sectors for most of the year. REITs and Utilities typically outperform in a low interest rate environment; with the U.S. 10-year treasury yield declining from 2.7% at the beginning of this year to 1.9% on December 31st, our overweight position proved to be prudent. Sector specific tailwinds, including continued strength in E-commerce, should fuel warehouse space demand, while the implementation of 5G beyond 2019 offers attractive secular growth opportunities for the Fund. We believe Prologis (up 55.9%), the leader in industrial facilities, will continue to demonstrate solid pricing power, while Crown Castle (up 35.5%) should continue to benefit from its small cell technology as it proliferates with accelerating 5G adoption over the coming years.

Offsetting some of the gains from our Utilities and Real Estate calls were our underweight positions in Information Technology and Communication Services. Underweights in Apple and Microsoft served as deterrence to the Fund's performance as both stocks has stellar performance relative to the MSCI World Index during the year (up 89.0% and 57.6%, respectively). We have a favourable outlook on both stocks as they offer attractive risk-reward with their growth oriented yet increasingly defensive characteristics. We remain cautious on Communication Services. Competitive pressure remains at elevated levels in Europe, Canada and the U.S. We remain cognizant to these risks and will continue to monitor their impact.

In November, we made several changes to the portfolio as global equities experienced a rotation towards value and cyclical stocks. Following the implementation of a third policy rate cut by the Fed in late October, the U.S 10-year treasury yield showed signs of bottoming out. Consequently, we pivoted the portfolio to gain more cyclical exposure through increasing the Fund's allocation to Industrials and Financials. We think large banks including Citigroup, JPMorgan and Bank of America will be able to navigate the low interest environment better than their peers. We are also overweight Health Care. Given the regulatory scrutiny endured by the Health Care sector throughout 2019, the sector was trading at below historical multiples and we found the risk-reward to be attractive. Pharmacy services manager CVS Health Corp and health insurer UnitedHealth Group were added as we believe the market priced in too high of a discount into both stocks as political risks wane. In conjunction with the cyclical shift, we have decreased the Fund's exposure to other defensive sectors including Real Estate, Communication Services and Consumer Staples. We believe the portfolio is well positioned to benefit from the cyclical tailwind heading into 2020.

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Note: This page is not complete without disclaimers on page 3.

Annual Compound Returns[1]	1-YR	Since Inception[2]
Brompton Global Dividend Growth ETF	22.8%	10.6%
MSCI World Index	28.4%	13.3%

(1) Returns are for the periods ended December 31, 2019. The table shows the Fund's compound returns for each period indicated compared with the MSCI World Index ("MSCI Index"). The MSCI Index captures large and mid cap representation across 23 Developed Markets countries. The MSCI Index covers approximately 85% of the free float-adjusted market capitalization in each country. The Fund invests in at least 20 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 MSCI Index which has a more diversified portfolio. Further, the MSCI Index is 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.

(2) Inception Date October 17, 2018.

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