Brompton North American Financials Dividend ETF (TSX:BFIN; BFIN.U)

BROMPTON FUNDS

Portfolio Manager Commentary - March 31, 2025

Financial Sector Review & Outlook

The S&P 500 Financials sector delivered positive returns in Q1 2025, outperforming the S&P 500 Index by 7.8 percentage points, while the S&P/TSX Financials sector lagged the S&P/TSX Composite Total Return Index by 2.8 percentage points. The Financials sector's returns were driven by strong performance in banking and insurance despite an increasingly challenging macroeconomic backdrop characterized by policy uncertainty and geopolitical risks. Stocks in our portfolio are well positioned to capture the idiosyncratic risk/reward opportunities across large cap banks, regionals, consumer finance, investment banks, insurance, exchanges and fintech.

During the quarter, banks saw improved fundamentals as the pace of net interest margins (NIM) compression eased, supported by the Fed's pause and expectation of future rate cuts. Commercial and Industrial loan growth remained robust for large institutions. Credit losses have begun to normalize with net charge-offs stabilizing. Trading revenue was especially strong for capital market-oriented banks, driven by elevated market volatility. Investment banking activity remained subdued due to regulatory ambiguity, though expectations of deregulation under President Trump's administration fueled optimism for an acceleration in M&A activity.

Banks continued prioritizing cost-cutting measures, with operating expenses declining quarter-over-quarter, while maintaining technology investments to counter fintech competition. These investments are critical for long-term returns on invested capital and operational efficiency. On the consumer business front, competition remains intense but manageable as banks leverage their scale and technology investments.

Macroeconomic conditions presented both opportunities and challenges. GDP growth moderated to 2.4% in Q4 2024 from 3.1% in the previous quarter, with analysts forecasting slower expansion in 2025 due to potential tariff impacts. The labour market remained resilient with unemployment at 4.2%, supporting consumer credit quality.

Looking ahead, the sector appears positioned for measured growth through 2025. The market's expectation of 3 additional rate cuts in 2025 should be a tailwind for banks, which could provide a boost for loan growth. P&C insurers and Exchanges should be better insulated from any tariff related noise, while life insurers must adapt to slowing group policy growth if unemployment edges higher. Although rising uncertainty around policy decisions and geopolitical risks has put pressure on the sector as a whole in the short term, over the medium-to-long term, the regulatory environment is expected to become more favourable as the election of Donald Trump as the 47th U.S. President signaled a potentially less aggressive regulatory agenda for banks, fostering a more conducive environment for mergers, acquisitions, and capital market activities. Deregulatory efforts could include amendments to Basel III Endgame proposals, enabling banks to accelerate share buybacks given record levels of excess capital. These changes are likely to support profitability and capital markets activity. In addition, the potential rollback of the FDIC's September 2024 merger guidance could unlock pent-up consolidation opportunities in the banking sector, although timing of the announcement remains largely uncertain. In the meantime, we expect banks to continue to build up their reserves to reflect the uncertain economic outlook.

Portfolio Review

Brompton North American Financials Dividend ETF (the "Fund") was down 2.0% during the period. The S&P/TSX Capped Financials Total Return Index was down 1.2% and the S&P 500 Financials Total Return Index was up 3.5% in Q1 2025.

Overweight positions in Life & Health Insurance and underweight positions in Asset Management & Custody Banks versus the S&P 500 Financials Total Return Index contributed positively to the Fund's performance. Top contributors include Aflac, Manulife and iA Financial Group. Our outlook on life insurance companies remains favourable, primarily due to their diversified product offerings and business mixes, which make them relatively resilient through economic cycles; however, we remain selective within the sector. The Fund also benefitted from its underweight positions in Property & Casualty Insurance. Top contributors include Intact Financial and Progressive Group, both of which are market leaders in the industry. We favour companies with considerable pricing power and scale given the increasing uncertain macro environment stemming from tariff risks.

Overweight exposures in Diversified Banks detracted from the Fund's performance, with Royal Bank of Canada and JP Morgan offsetting some of the Fund's gains. We continue to be selective within the sector and tilt towards names with more defensive qualities. We believe RBC is still well positioned to outperform in the current market regime. Given its scale and industry-leading market share, it continues to be on track to generate positive operating leverage and to deliver its ROE target.

Annual Compound Returns[1]	**YTD**	**1-YR**	**3-YR**	**5-YR**	**Since Inception[2]**	**Since Inception[3]**
Brompton North American Financials Dividend ETF (CAD Hedged)	(2.0%)	18.6%	7.2%	16.2%	8.4%	-
Brompton North American Financials Dividend ETF (USD)	(1.7%)	18.5%	7.0%	17.3%	-	10.3%
S&P/TSX Capped Financials Total Return Index	(1.2%)	21.8%	9.1%	18.4%	12.0%	12.9%
S&P 500 Financials Total Return Index	3.5%	20.1%	11.2%	21.4%	12.4%	13.9%
S&P/TSX Composite Total Return Index	1.5%	15.8%	7.8%	16.8%	11.0%	11.3%

(1) Returns are for the periods ended March 31, 2025 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with the S&P/TSX Capped Financials Total Return Index ("Financials Index"), the S&P 500 Financials Total Return Index ("S&P Index") and the S&P/TSX Composite Total Return Index ("Composite Index") (together the "Indices"). The Financials Index is comprised of constituents of the Composite Index that are classified as members of the financial sector with individual constituents capped at 25% weight. The S&P Index is comprised of constituents of the S&P 500 Index that are classified as members of the financial sector with individual constituents capped at 25% weight. The Composite Index tracks the performance, on a market-weight basis and total return basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Fund is actively managed; therefore its performance not expected to mirror that of the Indices which have more diversified portfolios and include a substantially large number of companies. Furthermore, the Indices' performance 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. The performance information shown is based on net asset value per CAD and USD unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per CAD or USD 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

(3) Inception Date August 8, 2019.

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VALUE
INTEGRITY
PERFORMANCE

THE FOUNDATION FOR EXCELLENCE

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