

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 could weigh on Europe and China and create headline risks. We also expect increased volatility in 2025 and believe 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

Brompton North American Low Volatility Dividend ETF (BLOV) focuses on lowering total portfolio volatility through investing in a diversified blend of North American equities with a minimum market cap of \$5 billion. During 2024, BLOV was up 10.8% versus the benchmark (MSCI Minimum Volatility USA) which was up 15.9%. Much of the performance gap can be explained by a strategy difference.

For the year, the Low Volatility factor underperformed the S&P 500 relative to other factors like momentum, quality and growth. We note that the low volatility factor has generated a positive premium in every decade since 1929, with a higher level of statistical significance than the other factors (according to Blitz, van Vliet and Baltussen - The Volatility Effect Revisited).

Our portfolio's performance was notably enhanced by our stock selections in the Consumer Staples, Energy and Financials sectors, which emerged as our top-performing picks. Within Consumer Staples, we maintained an overweight position in grocery retailers, capitalizing on the improving consumer landscape characterized by declining inflation and lower interest rates. In the Energy sector, our focus on pipeline stocks proved advantageous, as these investments benefited from the tailwind of lower interest rates. Pipeline companies, known for their stable cash flows and dividend yields, also benefited

from their status as AI infrastructure plays. Finally, our picks in Financials benefitted from the expectations of further de-regulation and return of capital markets activity following the election of President Trump.

Our portfolio’s performance was negatively impacted by our underweight position in the technology sector during this year as the benchmark forces a higher weight in technology, which results in higher volatility . In other words, the benchmark’s sector weighting is managed against an index whereas our low volatility strategy optimizes for portfolio volatility and dividends. As a result, our portfolio has a bias against overweighting high beta sectors such as technology. This can result in underperformance during risk-on rallies and outperformance during risk-off regimes.

Annual Compound Returns ¹	1-YR	3-YR	Since Inception ²
Brompton North American Low Volatility Dividend ETF	10.8%	0.2%	6.9%
MSCI USA Minimum Volatility Gross Total Return Index	15.9%	5.0%	10.7%
S&P/TSX Composite Total Return Index	21.6%	8.6%	14.4%

(1) Returns are for the periods ended December 31, 2024 and are unaudited. The table shows the Fund’s compound returns for each period indicated compared with the MSCI USA Minimum Volatility Total Return Index (“MSCI Index”) and the S&P/TSX Composite Total Return Index (“Composite Index” (together the “Indices”). The MSCI Index captures the investment results of an index composed of U.S. equities that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market. The Composite Index tracks the performance, on a market-weight basis and total return business, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. 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 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 April 30, 2020

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