Brompton North American Low Volatility Dividend ETF (TSX: BLOV)

Portfolio Manager Commentary - June 30, 2024

U.S. Market 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 one rate cut 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 the current macro mix of inflation and labour market holds.

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, the Fed's monetary policy remains a central focus, with the market closely watching for potential rate cuts. The persistent inflation could leave the Fed with no option but to maintain its "higher for longer" stance, thus delaying rate cuts.

The U.S. equity market has shown robust performance thanks to the AI megatrend, but also faces challenges as investors weigh the impact of high interest rates against improving corporate earnings and question how much upside AI stocks still have. The upcoming U.S. presidential election in November adds another layer of uncertainty, as election years historically see more muted stock market performance. Investors are likely to closely monitor campaign developments and potential policy shifts that could impact various sectors.

Portfolio Review

Brompton North American Low Volatility Dividend ETF (the "Fund") 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 the first half of 2024, the Fund was up 7.2% versus the benchmark (MSCI Minimum Volatility USA) which was up 8.5%. Much of the performance gap can be explained by a strategy difference.

In the first quarter of 2024, the Fund was overweight Energy and Healthcare, both of which registered positive returns and outperformed relative to the benchmark. Energy was the best performing sector in the Fund on the back of strong crude oil prices. McKesson (+26.4%) was the best performer in the Healthcare sector. While being underweight, Industrials also finished the 6-month period with a positive return and outperformed relative to the benchmark.

Consumer Staples remained the Fund's largest weighting. The sector generated positive returns, while lagging benchmark performance. The Fund was also overweight Communication Services, which was up but shy of the benchmark performance. Meta Platforms (+33.3%) was the best performing stock across the Fund. Financials and Information Technology were underweighted in the portfolio. Both gained but underperformed relative to the benchmark. In addition, no exposure to Materials resulted in underperformance relative to the benchmark, as the sector returned positive returns by the half-year end. Consumer Discretionary and Utilities were underweight, both of which were down and underperformed relative to the benchmark.

Annual Compound Returns[1]	YTD	1-YR	3-YR	Since Inception[2]
Brompton North American Low Volatility Dividend ETF	7.2%	5.9%	4.1%	6.9%
MSCI USA Minimum Volatility Gross TR USD Index	8.5%	14.6%	6.2%	10.3%
S&P/TSX Composite Index	6.1%	12.1%	6.0%	12.5%

(1) Returns are for the periods ended June 30, 2024 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with the MSCI USA Minimum Volatility Index ("MSCI Index") and the S&P/TSX Composite 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, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Fund invests in an actively managed portfolio consisting of equity securities of North American issuers with a market capitalization of at least $5 billion. It is therefore not expected the Fund's performance will mirror that of the Indices. 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. 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 April 30, 2020.

BROMPTON FUNDS

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