Brompton Enhanced Multi-Asset Income ETF (TSX: BMAX)

BROMPTON FUNDS

Portfolio Manager Commentary - December 31, 2023

Global Markets Review

Global equity markets had a strong rally in 2023, bolstered by a combination of better-than-expected corporate earnings and resilient economies. Investors entered the year expecting a recession by the second half of the year. However, it did not play out as consensus expected. Inflation has receded, while the U.S. Federal Reserve (the "Fed") finished its aggressive rate hike campaign without collapsing the economy. Technology was the best performing sector across major developed market indices. The MSCI World Index gained 24.4%. In North America, the S&P 500 rose 26.3%, with Technology (+57.8%), Communication Services (+55.8%), and Consumer Discretionary (+42.3%) significantly outperforming other sectors. The S&P/TSX Composite was up 11.8%, also supported by Technology. In Europe, the STOXX 600 registered 16.6% for the year. Italy FTSE MIB and Spain IBEX 35 surged 34.3% and 28.1%, respectively. Germany, France, U.K., and Switzerland all finished the period in the positive territory, up 20.3%, 20.1%, 7.7% and 7.1%, respectively.

Inflation has continued to fall, and many central banks expect it to decline more rapidly. It became apparent that a peak in interest rates was on the horizon in Q4. November CPI came in at 3.1%, the second lowest reading since its peak in June 2022. The labour market remains tight, supported by the historically low unemployment rate (3.7% in November), despite an increase in the labour force participation rate. The most recent economic data releases suggest that the U.S. economy was on its way to fulfilling the Fed's goals of low inflation and low unemployment. Meanwhile, manufacturing PMI entered November at 46.7, an indication of contraction when the number is below 50. The bond market was volatile during the year, with the U.S. 10-year treasury yield plummeting below 4% in December from nearly 5% in October. However, the yield did not move much on an annual basis. The spread between 10-year and 2-year treasury yields narrowed during the fourth quarter, while remaining negative. Other global bonds such as the U.K. Gilt and the German Bund also mirrored the U.S. treasury. When looking at value versus growth throughout 2023, growth outperformed value for both large cap and small cap, on the back of the AI hype and peak interest rates. The Technology sector was the clear winner.

During the fourth quarter, global central banks in developed economies gradually delivered more dovish stances of their monetary policy amid cooling inflation. The Fed left interest rates unchanged at 5.25%-5.5% range in November and December Federal Open Market Committee ("FOMC") meetings. In the December FOMC meeting, Fed Chair Jerome Powell signaled that the central bank was likely finished raising interest rates and is "just at beginning of discussion on policy easing". Encouraged by the likely peak inflation and potential rate cuts on the horizon, the Fed funds futures market is pricing in total rate cuts of 150 basis points in 2024 starting in May. In an optimistic sign heading into the new year, the Fed pivot saw a significant rise in equity flows. Current debates are focused on whether the Fed will cut rates as aggressively as the market anticipates and whether inflation will stay on its moderating path, resulting in a soft landing.

The Bank of Canada ("BoC") kept the overnight policy rate at 5% in October and December meetings. The BoC communicated that policymakers will consider cutting interest rates when inflation is clearly on the path to a 2% target and it is still too early to consider easing. The central bank also acknowledged that the rate hikes are one of the main contributors to headline inflation in Canada. However, the Canadian economy appears to be downshifting, evidenced by consecutive months without posting a single month-over-month of economic growth. Also, activities in wholesale trade, manufacturing, and real estate were contracting so household debt should see temporary relief if inflation keeps moderating and rate cuts are in sight.

The European Central Bank ("ECB") left the benchmark interest rate unchanged at 4.5% at the October and December meetings. The Governing Council was not yet convinced that the outlook for underlying inflation has improved sustainably and reiterated that policy rates "will be set at sufficiently restrictive levels for as long as necessary". Recent inflation readings in the Euro Area suggest that Energy and food costs have dropped. However, price pressure remains elevated given ongoing strong labour cost growth. Furthermore, the Council also announced the plan to phase out the Pandemic Emergency Purchase Program (PEPP): the ECB will reduce PEPP holdings in the second half of 2024 and end reinvestments at year end. Meanwhile, the Bank of England ("BoE") also held the policy rate unchanged at 5.25% and emphasized that rates need to remain restrictive for an extended period given its forecast. Like the Euro Area, core inflation in the U.K. has decelerated notably in recent months, but wage pressure showed sequential slowing, meaning that the BoE could shift to a more dovish direction faster than expected.

Investor sentiment improved during 2023. Despite uncertainties surrounding U.S. regional bank failures, slower China recovery, and the Israel-Hamas conflict, plenty of good news fueled the market rally, namely slowing inflation, peaked policy rates, and Artificial Intelligence hype. At the same time, U.S. corporate earnings appear to have bottomed in the second quarter of 2023. Powered by the solid performance of Magnificent Seven (Meta, Nvidia, Amazon, Apple, Alphabet, Microsoft, Tesla), which comprises more than 25% of the market value of the S&P 500, the index finished the year with robust returns. As U.S. equity valuations become even more expensive compared to major global equity markets, investors have sought opportunities in markets with low valuations. For instance, Japan's TOPIX Index posted 28.3% return in 2023 (in JPY terms). We have seen increasing global fund flow into this market, especially first-time Japanese equity investors overseas. According to the latest World Economic Outlook update issued by the International Monetary Fund in October 2023, the global economy is projected to grow 3.0% in 2023 and 2.9% in 2024, with the former unchanged and the latter revised down by 0.1 percentage point from the July forecast. Global inflation is forecast to decline to 6.9% in 2023 and further to 5.8% in 2024.

Looking forward to 2024, we believe global central banks will keep short-term interest rates higher to ensure inflation is under control. Markets are complacent about how quickly central banks, especially the Fed, will cut rates in 2024. But it is worth remembering that even if they did, policy would remain restrictive into 2025. We expect interest rates to come down from the elevated post-COVID levels, but the "last mile" to get closer to 2% inflation will be a slow grind. As a result, yields will continue to play an important role in dictating leadership between value and growth. Companies with long duration assets such as Telecommunications, Utilities, and Real Estate should benefit from the long- term rate decline thesis. Furthermore, geopolitical turmoil in the Gaza Strip and China's stimulus could also fuel market uncertainty. Stock picking will remain an important driver of alpha, and we continue favoring a barbell approach as our portfolio strategy. Brompton also expects volatility and believes 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 Enhanced Multi-Asset Income ETF (the "Fund") focuses on investing in a diversified portfolio of Brompton ETFs, on a leveraged basis, to provide monthly distributions and opportunity for capital appreciation. The Fund was up 11.2% for the full year of 2023. Brompton Tech Leaders Income ETF was the best performing ETF in the Fund (+47.9%).

Annual Compound Returns[1]	1-YR	Since Inception[2]
Brompton Enhanced Multi-Asset Income ETF	11.2%	14.7%
Multi-Asset Index	19.6%	21.4%
S&P/TSX Composite Index	11.8%	14.1%

(1) Returns are for the periods ended December 31, 2023 and are unaudited. The table shows the ETF's compound returns for each period indicated. 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. Multi-Asset Index consists of weighted avg. 70% of MSCI World Index; 20% ICE BofA 8% Constrained Core West Preferred & Jr Subordinated Securities Index; 10% S&P/TSX Preferred Share Index.

(2) Inception date October 18, 2022.

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Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3