Brompton Flaherty & Crumrine Investment Grade Preferred ETF BPRF | Brompton Flaherty & Crumrine *Enhanced* Investment Grade Preferred ETF BEPR

Portfolio Manager Commentary - March 31, 2025

Market and Credit Environment

Q1 2025 was in many ways a continuation of themes and technicals from the prior year. It was clear early in Q1 that the Federal Reserve (the "Fed") had pushed out its timeline for additional rate cuts, with the economy sandwiched between a strong labor market and decent growth on one side and lower, but stubborn, inflation on the other side. The November election introduced many new variables with a change in administration and control of Congress shifting narrowly to the Republican party. Many of President Trump's campaign themes were initially viewed positively by markets, such as less regulation and improved government efficiency, but concern about tariff policy accounted for much of the market movements since inauguration day.

Interest rate volatility continued in Q1, with focus shifting to the possible impact of tariffs on both the economy and Fed policy. The 10-year Treasury reached as high as 4.80% in mid-January as the inflationary impact of tariffs was in focus and ended Q1 at 4.21% as growth concerns moved to the forefront. While the overall impact of tariffs was uncertain, it was clear that these policies could present the Fed with difficult choices if long-term inflation expectations were to rise at the same time as the economy was slowing.

Like last year, equity and fixed-income markets initially took all this in stride as evidence continued to point to a strong economy, labor market, and corporate earnings, while a reassuring Fed continued to indicate a willingness to be patient and deliberate with future policy changes. By March though, markets began to price in more uncertainty as the new administration went to work on many of their policy changes.

The preferred securities and contingent capital securities (CoCo) markets continued to trade well for most of Q1, as it benefited from a strong technical backdrop. The supply of traditional preferreds has been limited, as most bank issuers have not experienced balance sheet growth that would result in additional capital needs. Certain banks have refinanced higher-coupon (or higher-reset) preferreds, but broadly the need for new capital has been limited. As we discussed in detail last year, the non-bank supply has continued to be robust with the 30-year, non-call 5-year or 10-year, hybrid structure being very popular with both issuers and the many crossover buyers looking for additional spread. Recall investment grade and high yield spreads have been near historical tights for some time, and these investors have added new hybrids and, therefore, spread, to their fixed-income portfolios. This issuance stems from favorable rating-agency treatment of these securities – applying partial equity credit to qualifying hybrids when calculating debt ratios – and the change at Moody's to increase this equity credit to 50% has driven a resurgence in issuance.

Outlook

Our outlook for preferreds and CoCos remains constructive from the standpoint of credit quality and ongoing technical support, but it has become clear that tariff policy will drive the near-term direction for all risk markets. The administration has come out of the gates aggressively on many issues, notably those that can be addressed by executive action, and it appears there is much more to come.

Based on current conditions, we expect the U.S. economy will achieve a "soft landing" with modest growth and gradually falling inflation, but it is likely to take more time to get there than we previously thought. "Stagflation" is a better descriptor for our 2025 outlook, with GDP growth and inflation around 1% and 4%, respectively. As the shocks from tariffs wane, growth should improve, and inflation should gradually decline in 2026. However, lower productivity and higher costs from reordered supply chains and tariffs suggest slower economic growth and higher inflation than before.

Risk premiums should remain elevated while tariff negotiations play out, implying a steeper curve and wider credit spreads. Our baseline is for no rate cuts from the Fed in 2025 as inflation rises, though we would not be surprised by 50 bp of "insurance" cuts if inflation expectations do not increase materially. That would be followed by additional cuts as inflation falls in 2026, bringing the Fed funds rate to around 3.5%. Recession would bring much more aggressive cuts.

Economic outcomes will be strongly influenced by policy choices, and we are highly attentive to the risks they pose. We believe investing in preferred securities with modest interest rate duration, relatively high current income, and good credit quality is an appropriate strategy to manage through this period of elevated uncertainty.

Annual Compound Returns[1]	**1-YR**	**3-YR**	**5-YR**	**10-YR**	**S.I. BPRF**[2]	**S.I. BPRF.U**[3]
BPRF - Brompton Flaherty & Crumrine Investment Grade Preferred ETF (CAD-H)	7.0%	3.0%	6.5%	-	3.8%	-
BPRF.U - Brompton Flaherty & Crumrine Investment Grade Preferred ETF (USD)	7.6%	3.2%	6.8%	-	-	3.7%
ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index	5.2%	3.3%	5.3%	-	4.4%	3.3%

Annual Compound Returns[4]	**1-YR**	**3-YR**	**5-YR**	**10-YR**	**S.I. BEPR**[5]	**S.I. BEPR.U**[6]
BEPR - Brompton Flaherty & Crumrine *Enhanced* Investment Grade Preferred ETF (CAD)	8.4%	2.4%	8.1%	4.1%	4.8%	-
BEPR - Brompton Flaherty & Crumrine *Enhanced* Investment Grade Preferred ETF (USD)	12.0%	4.2%	-	-	-	1.6%
ICE BofA Indices	5.2%	3.3%	5.8%	4.5%	5.2%	2.0%

(1) Returns are for the periods ended March 31, 2025 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the ICE BofA 8% Constrained Core West Preferred & Jr Subordinated Securities Index, (the "Index"). The Index tracks the performance of US dollar denominated high grade and high yield preferred securities and deeply subordinated corporate debt issued in the US domestic market. Qualifying securities must be rated at least B3, based on an average of Moody's, Standard & Poor's and Fitch and have a country of risk of either the U.S. or a Western European country. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Index, which has a more diversified portfolio and includes a substantially larger number of companies. Furthermore, the 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. 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 and USD unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(2) BPRF inception date October 15, 2018.

(3) BPRF.U inception date August 8, 2019.

(4) Returns are for the periods ended March 31, 2025 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the Fund's benchmark index ("ICE BofA Indices"). Effective December 1, 2022, the Ice BofA Indices is composed solely of the ICE BofA 8% Constrained Core West Preferred & Jr Subordinated Securities Index ("P8JC"), which took effect December 1, 2021. P8JC tracks the performance of US dollar denominated high grade and high yield preferred securities and deeply subordinated corporate debt issued in the US domestic market. Qualifying securities must be rated at least B3, based on an average of Moody's, Standard & Poor's and Fitch and have a country of risk of either the U.S. or a Western European country. For the period April 1, 2012 to November 30, 2021, the Fund used the benchmark ICE BofA 8% Constrained Non-DRD Eligible Core West Preferred & Jr Subordinated Securities Index ("P8JN"), while for the period since inception on December 15, 2004 to April 1, 2012, the Fund used a 50/50 split of the ICE BofA Hybrid Preferred Securities 8% Constrained Index ("P8HO") and the ICE BofA US Capital Securities US Issuers 8% Constrained Index ("C8CT"). P8JN is a subset of P8JC that includes only non- DRD eligible preferred securities. P8HO includes taxable, fixed rate, US dollar denominated, investment grade preferred securities listed on a US exchange and are structured for retail investors, while C8CT includes investment grade, fixed rate or fixed to floating rate $1,000 par securities that are structured for the institutional investors and receive some degree of equity credit from the rating agencies or their regulators. ICE BofA Indices are not leveraged, whereas the Fund employs leverage. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Ice BofA Indices which have more diversified portfolios and include a substantially larger number of companies. Furthermore the Ice BofA Indices performance is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund includes the impact of leverage and 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 and USD unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(5) BEPR inception date December 15, 2004.

(6) BEPR.U inception date February 4, 2022.

BROMPTON FUNDS
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