

## 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 Sustainable Real Assets Dividend ETF (the "Fund") was up 5.8% during 2023, compared to the Blended Index (75% Dow Jones Brookfield Global Infrastructure Composite Index and 25% Dow Jones Global Select Real Estate Securities Index), which was up 7.3% over the same period.

The Fund benefitted from its positions in Industrials and Materials. Our top contributors were Schneider Electric, Canadian Natural Resources and Ferrovial, all of which were up over 25% during the year. We positioned our portfolio to take advantage of several important themes such as government subsidies on infrastructure and de-carbonization, demand for Electric Vehicles and building materials to name a few.

Our underweight positions in Real Estate and some of our positions in Energy detracted from the relative performance. Both Real Estate and Energy had difficult years. Real Estate was weak for most of the year as rising interest rates put pressure on companies with high debt loads. The transactions market for real estate also ground to a halt due to the increasing cost of financing. Energy also had a difficult year with the price of crude being down ~10% for the year, despite increasing geopolitical tensions, increasing travel demand and continued output cuts by OPEC+. This was largely due to concerns around an economic slowdown leading to lower demand for energy and also China's recovery not being as strong as initially anticipated.

During the quarter we increased the allocation to Utilities and Consumer Discretionary funding those through sales in Energy. With rates likely having peaked and potentially being cut next year, we believe that interest rate sensitive sectors such as Utilities are positioned for a reversal.

The Fund's portfolio continues to meet the its ESG related investment objectives and strategies. The securities that the Fund sold and purchased in 2023 were a result of many different factors, including re-allocation of sector weighting, fundamental analysis and technical analysis. None of the securities sold in 2023 were a result of them not meeting ESG characteristics. The new purchases in the Fund's portfolio all, in the Manager's view, have positive and/or improving ESG characteristics.

Prysmian, which produces cables that are key to enabling wind power and upgrading the electrical grid, was purchased because it is a key beneficiary of renewable energy spending. Siemens was also purchased for its role in enabling the development of renewable energy projects as well as the electrification solutions it offers for public transit and smart infrastructure to reduce energy usage. Linde, which produces industrial gases for the production of green hydrogen, has a third of its energy consumption as low carbon, and plans to reduce GHG emissions by 35% by 2028. Air Liquide aims to

electricity consumed at AEM operations is from non-carbon emitting sources. Stantec was bought because it is a leader in sustainable engineering and helps make new and existing buildings more energy efficient. It was ranked as the 5th most sustainable company in the world (#1 in Canada) by Corporate Knights. Vinci has an ambition to reduce carbon emissions by 40% (of 2018) levels by 2030 and be net zero by 2050. It also promotes gender diversity in its management committee and 25% of short-term variable compensation is linked to ESG performance indicators. Arc Resources has delivered a 47% reduction in its GHG emissions intensity compared to its 2017 baseline, and it has set a new target to reduce its GHG emissions intensity by an additional 20% by 2025, relative to the company's 2019 baseline. Cameco is benefiting from the nuclear renaissance to produce emission-free base load power. Enel is one of the largest renewable developers in the world. Marathon Petroleum is investing significantly in renewable fuels, while also evaluating other opportunities to reduce emissions. Marathon currently has concrete targets across GHG, methane, and water. Parker Hannifin products go into end market than enable clean technologies such as filtration fluid and smart HVACs. Quanta Services builds out green energy generation and helps harden the grid to support the transmission of more electricity. Targa Resources is committed to reducing its emissions and provides important details on how it will minimize its impact on the environment. Vonovia is investing in making existing buildings more sustainable and reducing their carbon footprint.

Annual Compound Returns <sup>1</sup>	1-YR	3-YR	Since Inception <sup>2</sup>
Brompton Sustainable Real Assets Dividend ETF	5.8%	6.6%	8.5%
Infrastructure and Real Estate Index	7.3%	5.6%	7.3%
MSCI World Index	24.4%	7.8%	14.6%

(1) Returns are for the periods ended December 31, 2023 and are unaudited. The table shows the Fund's compound returns for each period indicated compared with the "Infrastructure and Real Estate Index" and the MSCI World Index ("MSCI Index"), together the "Indices". The Infrastructure and Real Estate Index consists of a 75% Dow Jones Brookfield Global Infrastructure Composite Index and 25% Dow Jones Global Select Real Estate Securities Index. The Dow Jones Brookfield Global Infrastructure Composite Index is designed to measure the performance of pure-play infrastructure companies domiciled globally. The index covers all sectors of the infrastructure market and includes Master Limited Partnerships in addition to other equity securities. To be included in the index, a company must derive at least 70% of cash flows from infrastructure lines of business. The Dow Jones Global Select Real Estate Securities Index tracks the performance of equity real estate investment trusts and real estate operating companies traded globally. The index is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The MSCI Index captures large- and mid-cap representation across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country. Fund It is therefore not expected the Fund's performance will mirror that of the Indices which have more diversified portfolios. 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.

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