

Portfolio Manager Commentary - June 30, 2025

Global Markets Review

The first half of 2025 saw global equity markets rebound strongly from early-year volatility, with all major indices posting gains despite significant turbulence. After a sharp sell-off between February and April—driven by competition from China's DeepSeek AI, concerns over U.S. tariffs, and recession risks—markets staged a robust recovery as tariff fears eased, and corporate earnings proved resilient. For the 6-month period ending June 30, the MSCI Total Return Index climbed 9.8%, reaching all-time high, with Industrials being the best performing sector. In North America, the S&P 500 Total Return Index was up 6.2%, also buoyed by Industrials. The S&P/TSX Composite Total Return Index gained 10.2% on the back of gold rallying. In Europe, the STOXX Europe 600 Total Return Index returned 9.4%. Spain, Italy, and Germany were the top-performing country indices, gaining 23.4%, 20.4%, and 20.1%, respectively, while the U.K., France, and Switzerland all finished the 6-month period in positive territory, up 9.5%, 6.8%, 5.9%, respectively.

Inflation continued to moderate globally, but the pace of central bank easing slowed as policymakers weighed the impact of new U.S. tariff policies and persistent inflationary pressures. In the U.S., inflation declined to 2.4% while the unemployment rate remained relatively low at 4.1%. Meanwhile, manufacturing PMI for June came in at 49.0 and has remained in contractionary territory for the past 6 months, which indicates that tariffs have driven up input prices, slowed new orders, and led to inventory accumulation. In bond markets, the U.S. 10-year Treasury yield fell from 4.57% to 4.23%, while the Canadian 10-year and most European 10-year yields largely mirrored U.S. Treasuries. The exception was Germany, where the country's 10-year yield spiked in early March after the new government proposed a sizeable infrastructure and defense spending plan that surprised the market. In equity markets, growth saw a robust recovery after the market sold off in March and April and ended up outperforming value by the end of June. Regional performance remained bifurcated, with Canada and Europe outperforming the U.S.

The Federal Reserve (the "Fed") kept interest rates unchanged at 4.25-4.50% range at both May and June Federal Open Market Committee (FOMC) meetings. The Fed acknowledged that economic activity continues to expand at a solid pace, with a low unemployment rate and resilient labour market conditions. However, Fed Chair Jerome Powell highlighted that, while headline and core inflation cooled in May, prices are expected to rise in coming months as tariffs affect consumers. The Fed's economic projections now anticipate slower GDP growth of 1.4% for 2025, down 0.3 percentage points from its previous projection, and inflation of 3.0% by year-end. By the end of June, the Fed Funds Futures have priced in two additional 25 bps rate cuts for the second half of 2025. Nevertheless, it would be challenging for the Fed to resume rate cuts until there is more visibility on tariffs and their impacts on inflation and unemployment.

The Bank of Canada ("BoC") overnight policy rate sits at 2.75% after two 25 bps rate cuts in the first quarter. The decision to cut rates in the first quarter and then hold them flat in the second quarter reflects heightened uncertainty from shifting U.S. trade policy and new tariffs, which raised downside risks to Canadian growth but lifted inflation expectations. The BoC also noted that the labour market has weakened, particularly in trade-sensitive sectors, and that businesses are planning to scale back hiring. The unemployment rate reached 7.0% in Q2, the highest reading since September 2021. Investment activities also remain muted, particularly in the manufacturing sector, while rising import costs and excess supply pressures from reduced U.S. demand for Canadian goods continue to weigh on the already fragile economy. The BoC also indicated that there could be a need for additional rate relief should the economy weaken further.

The European Central Bank ("ECB") cut its benchmark interest rate by 25 bps at each of the April and June meetings, which brought the rate to 2.15%. President Christine Lagarde insisted that the ECB is well placed to navigate upcoming challenges. A stronger euro and weaker energy prices should support the market's speculation that the ECB is getting to the end of the rate cut cycle. The ECB expects trade policy uncertainty to weigh on investments and exports, while

government spending will likely support growth over the medium term. This statement echoes Germany's momentous fiscal package on infrastructure and defense over the next decade. In response, the Germany's DAX index rallied, buoyed by aerospace and defense stocks. Moreover, the ECB also noted that real income in Euro Area remains healthy, and the labour market remains resilient, supporting European household spending.

The first half of 2025 started with mega-cap tech underperformance following the release of DeepSeek's lower-cost open-source AI model. This development disrupted the competitive landscape of the AI industry and shifted investor sentiment. Soon after, concerns over tariffs and escalating trade tensions dominated market headlines, further dampening sentiment. Markets plunged in early April after aggressive U.S. tariff announcements but rebounded rapidly when tariffs were postponed for 90 days, restoring investor optimism. Additionally, geopolitical tensions escalated in the Middle East when Israel launched surprise strikes on Iranian military and nuclear facilities on June 13. With the U.S. intervening, a ceasefire was brokered before month end. Many global indices witnessed a V-shaped recovery and reached all-time highs towards mid-year. Meanwhile, U.S. equities did not lead the performance this time as non-U.S. markets, such as Canada and Europe, outperformed. Fund flows out of the U.S. on the back of the perceived loss of "U.S. exceptionalism" as well as continued dollar depreciation boosted returns for international equities.

Looking forward to the rest of 2025, we believe tariff-driven volatility will continue to cloud the global economic outlook as trade policy uncertainty complicates central banks' monetary decisions, overshadows corporate earnings, and erodes consumer confidence. Despite investors ending the 6-month period with renewed optimism, we believe it is prudent to remain cautious as several trade-related deadlines approach. The Q2 rally was underpinned by resilient economic data and earnings, but the path forward may hinge on the resolution of trade tensions and central bank actions. From a portfolio construction perspective, the prevailing market uncertainty underscores the importance of maintaining a well-diversified portfolio that spans multiple sectors and geographies. In this climate, we favour a balanced portfolio and carefully select companies that are less exposed to tariffs and demonstrate resilience during economic turbulence.

Portfolio Review

Brompton Split Corp. Class A Share ETF (the "Fund") focuses on investing in a portfolio of corporate split Class A shares to provide attractive monthly distributions and the opportunity for capital appreciation. The Fund currently holds 14 Class A securities issued by split share funds with attractive dividend yields. Since the Fund's inception on March 20th, 2025, the Brompton Split Corp. Class A Share ETF's Net Asset Value increased from \$10.00 to \$11.04 plus \$0.40 in distributions.

Since inception, the Fund was positively impacted by performance from Dividend 15 Split Corp II, North American Financial 15 Split Corp and Dividend 15 Split Corp. Gains were partially detracted by performance from E Split Corp, Infrastructure Dividend Split Corp and Canadian Life Companies Split Corp.

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