

A covered call option strategy involves investing in a portfolio of stocks and then writing (selling) call options on the same stocks that are held in the portfolio. This strategy allows Brompton Funds to generate income from the call option premiums, in addition to receiving any dividend income from the underlying stocks and provides the opportunity to participate in equity market returns with potentially less volatility and risk by exchanging some upside potential for more stable returns.

A call option on a stock is a contract that gives the buyer of the option the right, but not the obligation, to buy the stock at a specified price (or “exercise price”) until a pre-determined date (the expiry date). If the stock price rises above the strike price, the option buyer will exercise the option. If the stock price remains below the strike price, the option buyer will let the option expire.

The price the buyer pays for the option is called a premium. The premium is determined based on:

- (i) the difference between the stock price and the strike price, where a lower spread leads to a higher price;
- (ii) the volatility of the underlying stock, where greater volatility leads to a higher price; and
- (iii) the time to expiration of the option contract, where a longer time period leads to a higher price.

## How a Covered Call Strategy Works in Rising, Falling and Flat Markets

How a covered call strategy might enhance the total return of a fund depends on the current market environment and how the underlying holdings perform.

### In Falling Markets

As the stock price falls, the probability decreases that the sold call option will be exercised. The option premium received reduces the impact of the market's decline on the fund's return by helping to offset losses in the value of the underlying equity portfolio.

### In Flat or Sideways Markets

When the stock price remains relatively unchanged, the probability that the sold call option will be exercised by the buyer diminishes over time. The amount received in option premiums adds to the portfolio's return, which may help the fund to outperform the market.

### In Rising Markets

As the stock price rises, the probability increases that the sold call option will be exercised by the buyer. If the call option is exercised, the portfolio's capital appreciation potential would be limited, although the premium received from the sale of the options adds to the portfolio's total return.

## Brompton's Active Covered Call Strategy

Brompton's covered call funds offer investors exposure to a portfolio of large capitalization equities and are designed to provide regular distributions, the opportunity for capital appreciation and lower volatility than would otherwise be experienced by holding the same portfolio of equities directly. By using a covered call strategy, Brompton can draw on three main sources of potential total return for the fund: (i) capital appreciation of the underlying equities in the portfolio; (ii) dividend income from the portfolio; and (iii) premiums earned from writing call options.

A variety of factors can impact the risk/return profile and overall success of covered call strategies. Brompton's portfolio management team carefully selects and manages both the underlying equity portfolio as well as the call options, while also considering how these two components might perform under various market conditions. The construction and management of the covered call option strategy is a complex and dynamic process that is difficult and costly for individual investors to replicate in their own portfolios.

Brompton takes an active approach to covered call writing with the aim to maximize total return. We determine what percentage of the portfolio and which equity securities to sell call options on based on market conditions and our investment outlook. We may write calls on a lower percentage of the portfolio in rising or low volatility markets in an effort to capture more market appreciation for the fund's portfolio, or a higher percentage in declining or high volatility markets in an effort to generate more option premium and provide a cushion against a market decline.

Brompton typically writes covered call options that are short-dated (1-2 months expiry). Writing short-term call options can increase the likelihood that the options to expire without being exercised, thereby allowing new calls to be written on the same underlying securities and potentially generating more premiums. In addition, Brompton will often write out-of-the-money calls to allow investors to participate in the upside potential of the underlying securities to a greater extent than do at-the-money calls. An out-of-the-money call sets the strike price above the market price (e.g. 1%-5% higher), allowing the fund to capture capital appreciation upside plus the option premium.

## Brompton's Covered Call Funds

TSX Ticker	Fund Name	Fund Overview	Management Fee
BDIV	Brompton Global Dividend Growth ETF	Actively managed portfolio of large cap global dividend growth companies	0.75%
BFIN	Brompton North American Financials Dividend ETF	Actively managed portfolio of large cap North American financial services companies	0.75%
HIG	Global Healthcare Income & Growth ETF	Actively managed portfolio of equity securities of large cap global healthcare companies	0.75%
TLF	Tech Leaders Income ETF	Actively managed portfolio of equity securities of large cap technology companies	0.75%
EDGF.UN	European Dividend Growth Fund	Actively managed portfolio of equity securities of large capitalization European Dividend Growth Companies	1.25% <sup>1</sup>
SBC	Brompton Split Banc Corp.	Portfolio of common shares of Canada's "Big Six" banks	0.55%
LBS	Life & Banc Split Corp.	Portfolio of Canada's four largest publicly-listed life insurance companies ("LifeCos") and the "Big Six" banks	0.60%
DGS	Dividend Growth Split Corp.	Portfolio of large-cap Canadian equities with high dividend growth rates and high current yields	0.60%
GDV	Global Dividend Growth Split Corp.	Actively managed portfolio of large-capitalization global dividend growth companies	0.85%
LCS	Brompton Lifeco Split Corp.	Portfolio of common shares of Canada's four largest publicly-listed life insurance companies	0.60%
OSP	Brompton Oil Split Corp.	Portfolio of common shares of at least 15 large-capitalization North American oil and gas issuers	0.70%

(1) European Dividend Growth Fund is expected to convert to an exchange-traded fund on or about April 16, 2019 or such other date as the manager, in its sole discretion, determines. After the conversion, the management fee payable by unitholders will be 0.75% of the NAV of Brompton European Dividend Growth ETF.

This document is for information purposes only and does not constitute an offer to sell or a solicitation to buy the securities referred to herein. The opinions contained in this report are solely those of Brompton Funds Limited ("BFL") and are subject to change without notice. BFL makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, BFL assumes no responsibility for any losses or damages, whether direct or indirect which arise from the use of this information. BFL is under no obligation to update the information contained herein. The information should not be regarded as a substitute for the exercise of your own judgment. Please read the Funds' public filings available at [www.sedar.com](http://www.sedar.com) before investing. Certain statements contained in this document constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the Funds, to the future outlook of the Funds and anticipated events or results and may include statements regarding the future financial performance of the Funds. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.



VALUE  
INTEGRITY  
PERFORMANCE  
THE FOUNDATION FOR EXCELLENCE

### Investor Relations

PHONE 416.642.6000  
TOLL FREE 1.866.642.6001  
FAX 416.642.6001  
info@bromptongroup.com  
www.bromptonfunds.com

### Address

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