EDGF

Brompton European Dividend Growth ETF

Portfolio Manager Commentary - December 31, 2024

Global Markets Review

Global equity markets finished the year with another year of strong performance bolstered by a combination of moderating inflationary pressures, easing monetary policy, and resilient corporate earnings. Enthusiasm over the artificial intelligence (AI) theme drove significant gains in U.S. indices. Donald Trump's victory in the U.S. election also helped boost the domestic equity markets on the expectations of deregulation and a corporate tax cut despite uncertainties surrounding his proposed tariff and immigration policies. In global equity markets the MSCI World Total Return Index finished the full year with a 19.2% gain, while the S&P 500 Total Return Index rose 25.0%, climbing to all-time high in November. Communication Services (+40.2%) and Technology (+36.6%) were the best-performing sectors. Both sectors benefited from the development of AI themes. The S&P/TSX Composite Total Return Index was up 21.7% buoyed by Technology and Financials. In Europe, the STOXX 600 Total Return Index registered a 9.6% return for 2024. Spain, Italy, and Germany were the best-performing countries, gaining 20.0%, 18.9%, and 18.8%, respectively, while the U.K., Switzerland, and France all finished in positive territory, up 9.6%, 7.5%, and 0.9%, respectively.

Inflation continues to moderate, which has enabled global central banks to shift to accommodative monetary policies. In the U.S., inflation was 2.9% in 2024, while the unemployment rate remained relatively low at 4.1% as of the end of the year. The U.S. economy remains healthy and has managed to avoid a recession. However, the manufacturing PMI remained below 50 in the second half of 2024, which is an indicator of softness in the manufacturing sector. As the inflationary pressure meaningfully abated, the Federal Reserve started its long-awaited cutting cycle in September. The bond market was volatile in Q4 with the U.S. 10-year Treasury yield rising sharply from 3.6% in September (the lowest of the year) to approximately 4.6% by year end, which resulted in a steepening of the yield curve. The rebound in yields raised concerns over inflation returning due to President Trump's tariff and immigration policies, which has resulted in fewer rate cuts being priced into the market for 2025. Global bond markets, such as the U.K. Gilt and the German Bund, mirrored the sell off in U.S. Treasuries. In equities, growth outperformed value for both large cap and small cap, while large cap tech names were the primary contributors to the index performance even though they showed signs of losing momentum during the back half of the year. Strong performance was also seen from a broader group of stocks in 2024 relative to 2023, including strength Financials and Consumer Discretionary.

The European Central Bank cut its benchmark interest rate by 25 bps in both October and December meetings bring the rate to 3.15%. President Christine Lagarde indicated more cuts are expected in 2025 saying current data suggest the direction of travel currently is very clear while also noting that data will still determine the pace and size of rate cuts, and that risks to inflation are not one-sided. Despite consecutive rate cuts, the European economy remains weak. Activity indicators such as eurozone manufacturing PMI finished the year in contraction territory. Meanwhile, the two major economic engines in the eurozone, France and Germany, experienced political instability during Q4. In France, Prime Minister Michel Barnier lost a no-confidence vote in December as other parties declined to back his budget, while no new parliamentary elections will be held until July 2025. In Germany, Chancellor Olaf Scholz dismissed Finance Minister in November causing the collapse of the three-party coalition government. In the U.K., the Bank of England left the policy rate unchanged at 4.75% in December after delivering a 25 bps cut in November. The central bank highlighted a more balanced labour market and upside risks to inflation in the near term.

Artificial intelligence remained the year's dominant investment theme fueling market enthusiasm and a transformative industry shift. The "Magnificent Seven" mega cap tech stocks delivered outsized returns, boosting the S&P 500. The seven names added about $6 trillion of market cap in 2024. Meanwhile, broader market breadth, indicated by the advance/decline line for the S&P 500, suggests wider participation in the rally beyond large-cap tech. Consecutive Fed rate cuts, durability of the U.S. consumer, and optimism around pro-business policies from the Trump administration bolstered equity performance in sectors such as Financials. Outside of the U.S., equity market performance was mixed. European equities lagged on the back of elevated energy costs, sluggish export demand, and political instability in major economies like Germany and France. According to the latest World Economic Outlook update issued by the International Monetary Fund in October 2024, the global economy is projected to grow 3.3% in 2025, revised up by 0.1 percentage points from the July forecast. The outlook also highlights that persistent services inflation is impeding overall disinflation efforts, complicating the path to monetary policy normalization.

We believe that the backdrop for European equities will be mixed in 2025. One major factor driving recent European underperformance versus the rest of the world is the Trump administration's expected trade policies. However, we believe that the tariff threat will not be as bad as feared. A significant portion of revenues generated by European corporations in the U.S. are produced and consumed in the U.S. as well, thus not subjected to tariffs. Furthermore, some industries could be exempted from tariffs, either because of their strategic importance, such as defense and pharmaceuticals, or their high pricing power, such as aerospace. However, a bigger issue for Europe is its China exposure, where industries such as automotive, chemicals, luxury, mining, and semiconductors are vulnerable. China exposure will likely continue to drag on European corporate earnings growth on the back of weak demand and hawkish China-U.S. policy. Meanwhile, M&A volumes have picked up from cycle lows, which should support equity valuations. In light of the above, we believe it will be a volatile market for European equities, and stock picking will become important with respect to alpha generation.

Portfolio Review

During 2024, Brompton European Dividend Growth ETF (the "Fund") was up 12.6%, outperforming the STOXX Europe 600 Total Return Index, which was up 9.6% over the same period.

Outperformance during the year was driven by our picks in Industrials and Financials. The Industrials sector had particularly strong performance, capitalizing on significant secular trends such as the ongoing electrification movement and the rapid expansion of data center infrastructure. Meanwhile, the Financials sector has experienced a resurgence, benefiting from improving valuation multiples helped by stronger earnings as lenders cut costs and benefit from diversified businesses and higher interest rates. Expectations of consolidation in the industry also underpinned share prices in 2024.

The Fund's performance was partially impacted by specific idiosyncratic factors affecting certain holdings. Companies such as Societe Generale suffered with turmoil in French politics and the expectations for increase in tax rates in France. The bank is also heavily exposed to borrowers in France, many of whom also faced negative outlooks for their business as a result. Some of our picks in the Materials sector were impacted by continued economic weakness in China.

During the year, we added to positions in Industrials, Financials and Healthcare, funding them through sales in Energy, Materials and Utilities. We continue to believe that the trends that have helped the stocks in these sectors will continue into the new year. Our picks within these spaces are better insulated from US tariffs, either through strong pricing power and the ability to pass it on, or through not being exposed to the threat of tariffs.

Annual Compound Returns[1]	1-YR	3-YR	5-YR	Since Inception[2]
Brompton European Dividend Growth ETF	12.6%	0.6%	4.9%	6.4%
STOXX Europe 600 Total Return Index	9.6%	4.8%	7.4%	7.2%
S&P/TSX Composite Total Return Index	21.6%	8.6%	11.1%	10.1%

(1) Returns are for the periods ended December 31, 2024 and are unaudited. The table shows the Fund's compound return for each period indicated compared with the STOXX Europe 600 Total Return Index ("Stoxx Index") and the S&P/TSX Composite Total Return Index ("Composite Index"), (together the "Indices"). The STOXX Index is a subset of the STOXX Global 1800 Index. With a fixed number of components, the STOXX Index represents large-, mid- and small-capitalization companies across 17 countries of the European region: Austria, Belgium, Demark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom. The Composite Index tracks the performance, on a market-weight basis and a total return basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Indices, which have more diversified portfolios and include a substantially larger number of companies. Furthermore, the Indices' performance is calculated without the deduction of management fees, 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 unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(2) Inception Date July 21, 2017.

BROMPTON FUNDS

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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