Brompton European Dividend Growth ETF (TSX: EDGF)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2020

European Markets Review

2020 was a tumultuous year and surely a year for the history books. The 2020 stock market crash marked the fastest correction in market history; yet numerous stock markets defied expectations and closed at all-time highs. All in all, global markets finished the year with stellar performance, especially when taking into account the major correction that took place in March. The MSCI World Index gained 16.5% with the Information Technology sector as the best performing sector, gaining 44.3% during the year; Consumer Discretionary was the second-best performing sector, outperforming the MSCI World Index by 20.5%. In North America, the S&P 500 was up 18.4%, while the S&P/TSX Composite was up 5.6%, both of which were led by strong performance from the Information Technology sector. In Europe, the STOXX 600 was down 1.4% for the year. Germany and Switzerland had the best performance, where the DAX and SMI were up 3.5% and 4.3%, respectively. France's CAC 40 Index declined 5.0%. Spain and U.K. also finished the year in negative territory as the IBEX 35 and FTSE 100 declined 12.7% and 11.4%, respectively.

During the fourth quarter, global economies continued the path to recovery while certain parts of the world combated a resurgence of COVID-19. In general, Asian countries have been able to control the spread of COVID-19 much better than North America and Europe. In November, Significant progress was made with the development and the rollout of COVID-19 vaccines. Pfizer and Moderna's vaccines both showed efficacy rates above 90%. AstraZeneca's vaccine also showed efficacy rate above the 50% threshold set by the World Health Organization. Several countries have granted emergency approval for these vaccines and are undergoing the inoculation process. At the same time, we saw sequential improvement in manufacturing production and sequential declines in the unemployment rate after peaking out in April. In the U.S., Democratic presidential nominee Joe Biden was elected the 45th president of the United States and was inaugurated on January 20, 2021. The two Georgia Senate runoff elections in January 2021 resulted in Democratic control of the Senate by the slimmest of margins. Democrats gained control of both the Congress and the White House for the first time since 2011. A Democratic win in combination with vaccine news pushed stock markets to new highs in November. The more cyclical parts of the economy benefited the most, including Energy, Financials, Materials and Industrials. Performance of Information Technology stocks remained robust, as the work from home theme continue to be a secular tailwind for the sector. In December, equity markets rallied further despite the implementation of lock down measures in certain countries. Risk appetites continue to favor pro-cyclical stocks as additional coronavirus relief get passes by the U.S. congress.

Effective central bank policies played an essential role in the recovery of global equities. In Europe, the European Central Bank expects to keep its benchmark interest rate unchanged at -0.50% until inflation outlook improves. The Governing Council also increased the envelope of the pandemic emergency purchase program (PEPP) in the face of a resurgence COVID-19 cases, by EUR500 billion to EUR1,850 billion, and extended the horizon for the PEPP to at least the end of March 2022. Purchases under the asset purchase program (APP) will continue at a monthly pace of EUR20 billion. During the fourth quarter, France announced another US$23.7 billion in aid to small business and furloughed workers; funding for loans to business was extended to June 2021. Italy passed a fourth stimulus package worth US$6.4 bullion for rent support, subsidies and wage support. U.K. Prime Minister Boris Johnson's Brexit deal gained approval in the House of Lords and became law just hours before the Brexit transition period ended on December 31, 2020.

At the end of 2020, the number of confirmed infections worldwide exceeded 84 million, with cumulative deaths approaching 2 million more than double the number of infections at the end of the third quarter. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in October 2020, global gross domestic product is projected to contract 4.4% this year, a less severe contraction than the previous forecast in June as activity began to improve sooner than expected after lockdowns were scaled back in May and June. The IMF projected the global growth rate for 2021 to be 5.2%. The path to recovery will follow a choppy trajectory as it is predicated upon a confluence of factors including public health response, progress with vaccines rollouts and the size and effectiveness of the policy response. The intricacy of interactions between multiple factors at play makes forecasting a difficult exercise.

Looking forward 2021, we expect strong recoveries in European equities as the Euro continues to appreciate against the US dollar. Elimination of Brexit uncertainties should support equity prices. European equities should outperform U.S. equities when investor sentiment rotate to risk-on. On the policy front, the ECB will likely keep rates steady for 2021. The Next Generation EU stimulus program should provide secular growth opportunities in infrastructure, renewable energy, and automation.

Portfolio Review

During 2020, Brompton European Dividend Growth ETF (the "Fund") gained 0.5%, outperforming the STOXX Europe 600 Index, which was down 1.4%.

The Fund benefitted from overweight positions in Information Technology and Consumer Discretionary during the year. ASML (+52.1%), Logitech (+108.6%) and Accenture PLC (+26.1%) were top contributors to its outperformance among the Information Technology constituents. We continue to favor Information Technology heading into 2021 given the strong secular growth themes in digitization, cloud and autonomous vehicle. Demand for better performance and technological advances are COVID agnostic and thus should support semiconductor outperformance. LVMH (+24.6%) was the top contributor to the Fund's outperformance among the Consumer Discretionary constituents. We remain buyers of Consumer Discretionary due to the tectonic shift in e-commerce post Covid-19 as unprecedented fiscal stimulus in Europe accelerated the marginal propensity to spend for the average consumer.

We held no positions in Energy (-31.4%) and Communication Services (-10.6%), which were also major contributors to the Fund's outperformance. We are more constructive on Energy heading into 2021 compared to the prior quarters, although excess supply in the market will take time to absorb. Additionally, we continue to underweight Communication Services due to slower than expected 5G rollout and rising competitive environments pressuring incumbent pricing.

Alongside easing Brexit risks, U.S. election uncertainties and the rollout of COVID-19 vaccines, we increased positions in Materials and Industrials, and trimmed exposure to Utilities and Consumer Staples. Our bullish outlook for 2021 led us to overweight pro-cyclical sectors and underweight more defensive sectors in the stock market. The passage of the Next Generation EU stimulus supports our investment thesis in Schneider Electric. The emphasis on energy savings and industrial automation is a multi-decade trend. Base metals, basic chemicals and industrial products should see prices recover rapidly as demand outpace supply growth. Within Utilities, we still favour names that are either renewable pure play companies or those that are undergoing renewable transformations. We believe the portfolio is well positioned to benefit from cyclical tailwinds in 2021.

Annual Compound Returns[1]	1-YR	3-YR	Since Inception[2]
Brompton European Dividend Growth ETF	0.5%	6.4%	6.7%
STOXX Europe 600 Index	(1.4%)	4.3%	4.3%

[1)] Returns are for the periods ended December 31, 2020. The table shows the Fund's compound return for each period indicated compared with the STOXX Europe 600 Index ("Stoxx Index"). 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. Since the Fund is actively managed, the sector weightings may differ from those of the STOXX Index. The STOXX Index 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.

[2)] Inception Date July 21, 2017.

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