Brompton European Dividend Growth ETF (TSX: EDGF)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2020

European Markets Review

Following a swift market sell-off in March, both North American and European equity markets enjoyed a sharp rebound during the second quarter. For the six-month period ended June 30, 2020, the MSCI World Index decreased 5.5% led by losses from the Energy sector, which declined 35.2%, while Information Technology was the best performing sector, outperforming the MSCI World Index by 19.6%. In North America, the S&P 500 was down 3.1%, while the S&P/TSX Composite was down 7.5%. Information Technology was the best performing sector for both indices. In Europe, the STOXX 600 was down 11.7%, led by Spain and the U.K., where the IBEX 35 and the FTSE 100 were down 22.9% and 16.8%, respectively. France's CAC 40 and Italy's FTSE MIB both lost 16.2%, while Germany and Switzerland equities also finished the period in negative territory as the DAX returned -7.1% and the SMI returned -2.3%. During the second quarter, countries around the globe made significant progress in COVID-19 containment. European countries have been able to control the spread of COVID-19 much better than the U.S. As it currently stands, the U.S. remains as the country with most confirmed cases of COVID-19 per million population.

Equity market performance during the first half of 2020 can be dissected into two distinct time frames, namely a period prior to the pandemic and one after the pandemic began. Prior to the pandemic, policymakers saw 2020 as likely a year of steady growth with continued strength in the job market. Fed Chair Jerome Powell expressed cautious optimism; this was in stark contrast to 2019 where the Fed cautioned against effects of the U.S.-China trade war on the economy. This optimism drove equity markets to new highs on February 19th, where Information Technology, Utilities and Consumer Discretionary sectors led the market. Following the COVID-19 outbreak, the STOXX Europe 600 officially entered into bear market territory in March but was followed by a swift recovery off its March 18th trough in the second quarter. Unprecedented monetary and fiscal policy support around the globe in combination with re-opening of economics gave investors reasons for optimism during the second quarter. Cyclical sectors including Energy, Materials and Consumer Discretionary led the recovery while defensive sectors including Utilities, Consumer Staples and Communication Services lagged.

Effective policies played an essential role in putting a floor on global equities. In June, the European Central Bank (ECB) decided to increase the envelope and extend the horizon for the pandemic emergency purchase programme (PEPP) and to reinvest its maturing principal payments, while continuing with the current asset purchase programme (APP) and keeping the key ECB interest rates unchanged. European Union (EU) leaders started formal discussion on the European Commission's proposal for both the EU budget and the associated Recovery Plan in the amount of EUR750 billion. Germany announced a second stimulus package in June featuring a EUR20 billion tax cut, additional income support for smaller businesses and expense cut for households. France's stimulus package for 2020 is now equivalent to around 6% of GDP, spanning from additional support for furloughed workers, small businesses, health spending and tax exoneration for certain sectors.

According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in June 2020, global gross domestic product is projected to contract 4.9% this year. The pandemic has had a more negative impact on the first half of 2020 than previously expected and the pace of recovery will be more gradual. The IMF projected the global growth rate for 2021 to be 5.4%. The path to recovery is predicated upon efficacy of containment efforts, implementation of effective testing, and discovery of a vaccine; layered on top of all these is the restoration of consumer confidence. The intricacy of interactions between multiple factors at play makes forecasting a difficult exercise. However, we do know that the powerful, synchronized, and broad-based fiscal and monetary support demonstrate the willingness of policymakers to take extraordinary steps to alleviate stress in the economy. Equity markets have indeed reacted favourably; the STOXX Europe 600 have rebounded 13.9% in the second quarter. Western Europe have reopened substantially with minimal effect on virus transmission at national levels.

Looking forward to the second half of 2020, we expect strong growth in European equities as the Euro continues to appreciate against the US dollar. On the policy front, the ECB will likely keep rates steady for 2020. The potential approval of the EUR750 billion Recovery Plan could provide secular growth opportunities in infrastructure, renewable energy, and automation. In terms of volatility, geopolitical tensions with the U.S. could be a source of volatility that we'll be paying close attention to.

Portfolio Review

During the first half of 2020, Brompton European Dividend Growth ETF (the "Fund") was down 9.9%, outperforming the STOXX Europe 600 Index, which was down 11.7%.

The Fund benefitted from its underweight positions in Energy and Consumer Staples. Energy was the worst performing sector during the first quarter and holding no positions in the sector contributed positively to the Fund's outperformance. We continue to have a cautious view on the Energy space as margin concerns have driven investor funds out of the sector. As for Consumer Staples, we currently own grocers, food and cleaning product manufacturers, who have seen surges in demand as a result of the pandemic, while we are more cautious about the beverage space.

Our overweight position in Information Technology also contributed to the Fund's outperformance. Within Information Technology, we have a favourable outlook on semiconductors heading into the second half of the year. We own ASML, the market leader in semiconductor manufacturing equipment who should remain resilient given its monopoly position in the lithography sector.

Overweight positions in Health Care and Consumer Discretionary offset some of the outperformance generated in the aforementioned sectors. The Fund currently holds several high-quality healthcare companies that are working towards a vaccine for COVID-19 including Sanofi and Glaxosmithkline, as well as Medtronic, who manufactures medical ventilators that are used for the treatment of COVID-19. We believe market sentiment is heavily driven by the prospect of a vaccine and that Health Care companies will lead the economy towards the path to recovery. Global luxury players have strong digital channels that allow them to generate positive sales growth through the pandemic, and as China, the U.S. and European countries relax their confinement measures, a pent-up demand will allow the sector to recover at a rapid pace.

During the last quarter, we have made several adjustments to the portfolio. We have trimmed weights off Consumer Discretionary while remaining overweight the sector and increased our Consumer Staples and Materials allocations. We expect auto demand to remain muted and don't foresee sales returning to pre-COVID levels this year. We added Reckitt Benckiser and Unilever during the quarter, whose home cleansing and hygiene products exposure are setting both companies up for top line and profitability growth for the remainder of the year.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	1-YR	Since Inception[2]
Brompton European Dividend Growth ETF	(1.8%)	4.0%
STOXX Europe 600 Index	(3.7%)	1.1%

1) Returns are for the periods ended June 30, 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, Beligium, 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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