PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2019

Overview

A special meeting of European Dividend Growth Fund was held on February 14 where unitholders approved the conversion of European Dividend Growth Fund from a closed-end investment fund into an exchange-traded fund. On April 23, Brompton Funds Limited, the manager of the Fund, filed a final prospectus with the securities regulatory authorities in each province and territory in Canada, relating to the Fund's conversion to an exchange-traded fund. Brompton European Dividend Growth ETF began trading on April 23 under the new TSX ticker symbol, EDGF.

Portfolio Review

Brompton European Dividend Growth ETF (the "Fund") generated a total return of 13.8% during the first quarter of 2019, outperforming the Stoxx Europe 600 Index, which was up 12.3%.

In March, the portfolio was rebalanced and reconstituted which resulted in the removal of Unilever, Capgemini, Fortum, Infineon, Aviva, BAE systems, UPM and CIE Financière Richemont and the addition of Enel, Vonovia, Experian, Nestle and Orsted. The net result was a decrease of our total holdings from 25 to 22, increasing the Fund's exposure to interest sensitive sectors including Utilities and Real Estate, as well as increasing exposure to Industrials and Consumer Staples while remaining underweight overall. We removed Unilever to purchase Nestle due to Nestle's superior product mix, especially given its recent pivot to focus on coffee through a deal with Starbucks. Moreover, we believe exposure to defensive sectors including Utility and Real Estate was prudent as supported by a favourable low interest rate macro environment and sentiment shift towards defensives. Secular growth in renewables and electric vehicle charging makes utility names like Orsted attractive, and robust demand from Germany's housing market should drive consistent growth for Vonovia for years to come.

The Fund is overweight Consumer Discretionary, Health Care, Information Technology and Utilities. Our global luxury holdings including LVMH, which was up 27.0% during the quarter, Adidas, gaining 18.9% and Kering, with an increase of 25.3%, confirm a buoyant environment for luxury goods globally. Even with macro economic uncertainties surrounding U.S-China trade war, the rate of growth seen in the luxury goods sector is unabated. We remain confident in the sector heading into Q2 2019. Global brands with their tight expense management and pricing power should continue to drive high single digit organic growth. Furthermore, favorable China PMI data in March confirms our optimism.

The Fund is overweight Health Care. In the Health Care sector, the Fund owns names that are exposed to secular growth themes in immune-oncology, cardiovascular health, diabetes and medical devices given an aging global population and increasingly longer life spans. Novartis, with a focus on oncology and heart disease, was up 15.6% during the first quarter, and Koninklijke Philips, focusing on health care diagnostics and treatment, rallied 16.4%. AstraZeneca, a developer of cancer, diabetes and asthma gained 8.9% during the quarter. We continue to overweight Health Care given the high growth potential within the sector that's driven by product innovation and R&D productivity; particularly, we see Medical devices and diagnostics being the subsector with high growth verticals.

Strong secular growth themes in digitization, cloud, autonomous vehicles and 5G led to our overweight position in the Information Technology sector. The Fund currently holds SAP, one of the top 3 global providers of enterprise software for large businesses with growing could offerings, which rallied 16.0% during the quarter, as well as ASML, one of the world's largest makers of semiconductor equipment, which gained 20.8% over the 3-month period. SAP's profitability should increase over the next 12 to 24 months as it transitions to the cloud. As its cloud subscriptions gain scale, sales and margin growth should accelerate, driving dividend growth. We believe performance demands and technological advances will drive increased demand for semiconductor equipment and ASML, as the only maker of the extreme ultraviolet lithography (EUV) machines, will be able to capitalize on this trend. Additionally, we see an acceleration of demand for EUV machines for the next generation of chips developed for Artificial Intelligence (AI) and 5G.

The Fund is also overweight the Utilities sector. The sector is defined by strong long-term cash flow visibility and consistent dividend growth. Orsted, with its leadership position as a developer and operator of offshore wind farms has the scale and expertise to win renewable tenders. We see the company being able to increase penetration of its existing market in Europe as well as expand into Japan, South Korea, India and Poland. Secular growth trends in renewables and electric vehicle charging presents plenty of growth opportunities for the company.

The Fund is underweight Industrials, Materials, Energy and Financials given a supressed growth environment in Europe. In March 2019, Eurozone PMI fell to 51.2, a three-year low, and consumer confidence remains weak, at -7.2. Within the Industrials sector, we favor Airbus, as we see the company being a direct beneficiary of increased global defense budgets; Vinci, for its globally diversified business and long-term cash flow visibility; and Experian, for its global leadership position in information services dominating the second largest player Equifax by 37% in terms of revenue. The Fund holds no positions in Energy given the small size of the sectors in Europe and our belief that capital will continue to flow to North America where expected returns are higher. Lastly, we are underweight Financials. Concerns over economic growth and Brexit casts doubt on our confidence for dividend growth within the sector. Low long-term yields environment is also difficult for life insurers. The Fund holds London Stock Exchange Group, whose return positively correlates with the amount of volatility in the financials sector. The company rallied 17.0% during the first quarter of 2019.

Annual Compound Returns[1]	1-YR	Since Inception
Brompton European Dividend Growth ETF	3.7%	2.9%
STOXX Europe 600 Index	2.2%	(0.8%)
S&P/TSX Composite Index	8.1%	6.4%

(1) Returns are for the periods ended March 31, 2019. Inception date July 21, 2017. ETF conversion date April 23, 2019. The table shows the ETF's compound return since inception compared with the STOXX Europe 600 Index and the S&P/TSX Composite Index ("Composite Index"). The ETF invests in large-capitalization European equity securities that are selected from the STOXX Europe 600 Index. The STOXX Europe 600 Index is a subset of the STOXX Global 1800 Index, representing large, mid and small capitalization companies across 17 European developed countries. The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the TSX. Since the Fund is actively managed, the sector weightings may differ from those of the indices. The benchmark indices are calculated without the deduction of management fees and ETF expenses, whereas the performance of the ETF is calculated after deducting such fees and expenses.

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