Brompton Energy Split Corp.

BROMPTON FUNDS

Portfolio Manager Commentary - December 31, 2023

Crude Oil Review

Crude oil prices posted the first annual decline since 2020. OPEC+ output cuts and the Israel-Hamas war propelled prices in September and October, but crude oil dropped further in 2023 dominated by weaker demand growth. Therefore, energy stocks largely lagged other sectors as well as the broader markets. West Texas Intermediate (WTI) finished the year at US$71.65 per barrel by the end of December. Brent oil prices kept trading at a premium and closed at US$77.04. In Canada, heavy oil spreads traded at a discount of US$19.60 by year-end. The differentials widened between July and November, as Canadian production ramped up after completing planned maintenance and U.S. refinery maintenance. The differentials narrowed in December in anticipation of the Trans Mountain pipeline expansion coming in early 2024.

Global oil demand decelerated during the second half of 2023, with underwhelming demand in Q4. OECD demand was largely subdued, impacted by elevated interest rates and slower oil consumption. European demand was particularly soft, evidenced by the region's broad manufacturing and industrial weakness. The economic slowdown is set to continue into 2024, undermining the oil demand outlook for the continent. Non-OECD demand was more encouraging, as China's consumption, transportation fuels, and petrochemical feedstocks continued supporting the demand growth. However, China's oil demand is expected to grow at a slower pace going forward if the country's economic growth prospects become structurally slower. Regarding transportation fuels, both jet fuel and gasoline witnessed rising consumption, thanks to strong momentum in both road and air travels. Looking throughout 2023, energy largely underperformed relative to other sectors across major global bourses, even though the sector fundamentals remained robust. The International Energy Agency (IEA) forecasts that the global oil demand will grow by 2.3 million barrels per day in 2023 reaching 101.7 million barrels per day. Oil consumption growth is expected to ease significantly in 2024, with demand baselines normalizing.

During the most recent OPEC+ meeting, the alliance announced voluntary production cuts amounting to 2.2 million barrels per day through Q1/2024, where Saudi Arabia will extend the previous 1 million barrels reduction rather than participate in deeper cuts. Meanwhile, Brazil agreed to join OPEC+ in 2024, but will not be obliged to the latest round of output reduction. The South American producer posted record-breaking production in Q3, helping bolster global supply along with other non-OPEC countries such as the U.S. and Guyana. As one of the most influential sources of non-OPEC supply growth, Brazil's decision could be an important development if the country agrees to curb output collectively with other members in the future. Furthermore, Angola announced its exit from OPEC. Despite accounting for less than 4% of OPEC's current production, its exit should not threaten the alliance's ability to manage the oil market. This decision indicates a growing tension inside the cartel. All in all, notwithstanding repeated supply cuts from the OPEC+, rising production from non-OPEC nations sent crude oil prices lower towards the end of the year. We expect demand growth to slow as post-COVID recovery tailwinds abate, while supply-side forces will likely be the key driver of oil prices in the near few months.

Portfolio Review

Units (1 Class A share plus 1 Preferred share) of Brompton Energy Split Corp. (the "Fund") were down 4.7% in 2023. This compares to the S&P/TSX Capped Energy Index, which was up 4.8%, and the S&P 500 Energy Index, which was down 1.4% over the same period. Top performers included Canadian Natural Resources, Diamondback Energy, and Imperial Oil, which returned +21.0%, +19.6%, and +17.6% respectively in local currency terms. Upstream players involved in the exploration and production (E&P) process outperformed midstream players during the year.

The name of the Fund was changed to "Brompton Energy Split Corp." in December and the investment mandate was expanded as a result of a shrinking universe of dividend paying oil and gas companies included in the S&P 500 and S&P/TSX indices, which was previously a requirement for inclusion. The mandate was expanded to include global energy companies, regardless of whether they are included in those indices.

The portfolio was rebalanced and reconstituted in the same month and the number of holdings decreased to 17 North American oil companies (10 names in the U.S. and 7 names in Canada) after selling 5 and buying 4 U.S. stocks, as well as switching 1 Canadian stock. We currently favour upstream players who produce crude oil since they are better leveraged to oil prices. Rig counts were largely flat during Q4 after declining over the first 3 quarters. The North American Energy sector continued to trade at a significant discount relative to the broader market. On an absolute basis, the group kept trading at cycle low EV/EBITDA valuations. Large cap producers delivered better-than-expected results in the third quarter on the back

of attractive valuations, solid cash flow, and growing dividend payments. With debt levels near record lows, key priorities for the use of free cash flow move away from debt repayment, with the Canadian oil and gas group on average expected to be in a net cash position next year and towards focusing on return of capital initiatives, e.g. dividend and buyback increases. Meanwhile, capital budgets should also trend higher in 2024 as suggested by Q3 results across the space. M&A activity was prominent in the back half of 2023. Pending deals with transaction valued over $10 billion include Exxon Mobil's acquisition of Pioneer Natural Resources, Chevron's acquisition of Hess, and Occidental Petroleum's acquisition of CrownRock LP. Our portfolio is well-positioned to benefit from a sustained rebound in global oil and gas demand. The portfolio holdings are primarily spread across exploration & production companies and a few integrated oils to provide investors with exposure to key resource plays that we believe have the strongest return potential. With the modernized mandate and recognizing the nuclear renaissance, Cameco was added to the portfolio. The global economy is expected to weaken, reducing interest rates and demand for oil and gas. As a result, two midstream names – Williams and Targa were added.

Looking into 2024, we expect crude oil demand to slow among OECD countries, offset by stronger non-OECD growth. However, if the macro deteriorates further in China, Beijing could ease crude imports and draw down inventories, posing downward pressure on demand. The supply side will likely drive the near-term price volatility around OPEC, Russia, and the U.S. production. Geopolitical risks have also risen since the Israel-Hamas conflict and recent developments in the Red Sea. With the oil price pullback, energy producers are still exercising capital discipline and projecting low-to-mid single digit production growth and generating strong cash flow. We believe the primary driver of share price appreciation will be rising cash flow and cash distribution to shareholders. We are cautious on companies' outlook that could be inevitably lowered due to economic uncertainties next year. Therefore, we emphasize the ever-increasing importance of stock selection in the Energy space.

Laura Lau, CIO

Michael D. Clare, SVP & SPM

Annual Compound Returns[1]	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Energy Split Corp. - Class A	(34.0%)	*	117.8%	(12.6%)
S&P/TSX Capped Energy Index	4.8%	44.5%	16.7%	4.5%
S&P/TSX Composite Index	11.8%	9.7%	11.3%	6.9%
Brompton Oil Split Corp. - Unit	(4.7%)	35.2%	12.0%	0.1%
Brompton Energy Split Corp. - Preferred	7.8%	26.2%	7.7%	6.5%
S&P/TSX Preferred Share Index	5.9%	1.2%	2.6%	1.4%

(1) Returns are for the periods ended December 31, 2023 and are unaudited. The table shows the Fund's compound return on a Class A Share, Preferred, Share and unit for each period indicated compared with the S&P/TSX Capped Energy Index ("Energy Index"), and the S&P/TSX Composite Index ("Composite Index") and the S&P/TSX Preferred Share Index ("Preferred Index"), (together the "Indices"). The Energy Index is derived from the S&P/TSX Composite Index and tracks the performance of equity securities that are in the energy sector of the Toronto Stock Exchange (the "TSX"). The Composite Index tracks the performance, on a market-weight basis, of a broad index of large-capitalization issuers listed on the TSX. The Preferred Index tracks the performance, on a market-weight basis, of preferred shares listed on the TSX that meet the criteria relating to size, liquidity and issuer rating. The Fund invests, on an approximately equal-weight basis, in a portfolio comprised of at least 15 large-capitalization North American oil and gas companies. Since the Indices have more diversified portfolios that only include TSX-listed issuers, it is not expected that the Fund's performance will mirror that of the Indices. The Indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per Class A share and per unit and assumes that distributions made by the Fund on the Class A shares and units in the periods shown were reinvested (at Net Asset Value per Class A share and per unit, respectively) in additional Class A shares and units of the Fund.

(2) Inception Date February 24, 2015.

** Performance per Class A share is not determinable, as the comparative Net Asset Value per Class A share was $0.00.*

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There are ongoing fees and expenses associated with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the Fund in the public filings available at www.sedar.com. The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all distributions and do not take into account certain fees such as redemption costs or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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