ESP Brompton Energy Split Corp.

Portfolio Manager Commentary - December 31, 2024

Crude Oil Review

Energy was the third best performing sector in the S&P/TSX Composite Total Return Index and the fourth worst performing sector in the S&P 500 Total Return Index in 2024. Oil demand decelerated beginning in the middle of 2024 due to slowing demand in China. West Texas Intermediate (WTI) crude oil finished the year at US$71.72 per barrel. Brent oil prices continued to trade at a premium and closed at US$74.64. In Canada, heavy oil spreads traded at a discount of US$13.49 by year end, with differentials narrowing over the course of 2024. The expanded Trans Mountain pipeline started operating in June, which contributed to the improvement in differentials.

Oil demand experienced a decline in the second half of 2024. China, the world's largest oil importer, saw rapid contraction in consumption. This reduction was primarily attributed to two factors: a broad economic deceleration and an accelerated transition towards alternative fuel sources. The latter trend, characterized by a shift away from traditional petroleum products given the proliferation of EVs and buildout of high-speed rail, exerted considerable downward pressure on overall oil consumption within the country. The International Energy Agency (IEA) forecasts annual global oil demand to growth of 1.05 million barrels per day in 2025, up from growth of 940 thousand barrels per day in 2024. While demand from China remain sluggish, emerging Asia is expected to lead gains in 2025.

In December, OPEC+ delayed its anticipated output hike by another 3 months and extended the ramp up period by 9 months through September 2026. However, non-OPEC supply growth has led to an over-supplied market, with higher output from Canada, Guyana and Brazil offsetting supply losses from Libya, Norway and Kazakhstan. Based on the current supply-demand mix, non-OPEC production growth is rising faster than demand growth even if OPEC+ was to keep its production cuts in place.

Portfolio Review

Units (1 Class A share plus 1 Preferred share) of Brompton Energy Split Corp. (the "Fund") were up 20.6% in 2024, outperforming the S&P/TSX Capped Energy Total Return Index (up 14.6%) over the same period. The top performers include Targa Resources (+110.1%), Williams Cos Inc (+44.7%) and Kinder Morgan (+32.0%). Midstream players such as storage and pipeline operators outperformed upstream players in 2024.

The Fund currently holds 16 North American Energy companies (8 Canadian names and 8 U.S. names). In 2024, we sold 9 names and bought 6 names. We added exposure to midstream, natural gas, and power producers. Midstream players have benefited from EBITDA growth and new infrastructure project tarts amid easing inflationary pressure and interest rate cuts. Meanwhile, we reduced weights in E&P players to reduce sensitivity to commodity price fluctuations. While the energy sector performed weakly relative to the broad benchmark, midstream players saw solid returns during the year. Large cap names delivered robust results on the back of strong free cash flow margins, historically low leverage, and dividend growth. Meanwhile, sector guidance projected capital budgets to grow throughout 2025. We have seen many energy companies' capital efficiency further improving, which will be the key to differentiating leaders from laggards. Our portfolio is well-positioned to benefit from a rebound in global oil and gas demand as well as resiliency of infrastructure expansion.

Looking out to 2025, we expect crude oil demand to remain muted among OECD countries, while non-OECD demand will be the key to watch. As China demand has slowed, both crude net imports and refined product exports trended down. Moreover, China's construction activities and domestic trucking market are still under pressure, translating into near-term weakness from the demand side. There is a greater degree of visibility on production, allowing for a gradual and orderly development of the oil market, consistent with OPEC's objectives. This should help support oil prices from the supply side. Energy producers are still exercising capital discipline and projecting low-to-mid single digit production growth as well as generating strong cash flow. We believe the primary driver of share price appreciation will be rising cash flow and cash distributions to shareholders. Some but not all companies should benefit from capital efficiency improvements and cost saving tailwinds. Therefore, we emphasize the ever-increasing importance of stock selection in the Energy space.

Annual Compound Returns[1]	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Energy Split Corp. - Class A	59.3%	*	39.5%	(7.1%)
S&P/TSX Capped Energy Total Return Index	14.6%	22.4%	17.2%	5.2%
S&P/TSX Composite Total Return Index	21.6%	8.6%	11.1%	8.3%
Brompton Oil Split Corp. - Unit	20.6%	20.5%	13.5%	2.0%
Brompton Energy Split Corp. - Preferred	8.4%	8.6%	8.4%	6.7%
S&P/TSX Preferred Share Total Return Index	24.6%	2.7%	6.5%	3.6%

(1) Returns are for the periods ended December 31, 2024 and are unaudited. The table shows the Fund's compound return on a Class A Share, Preferred Share and unit (which consists of one Class A share and one Preferred share) for each period indicated compared with the S&P/TSX Capped Energy Total Return Index ("Energy Index"), and the S&P/TSX Composite Total Return Index ("Composite Index") and the S&P/TSX Preferred Share Total Return Index ("Preferred Index"), (together the "Indices"). The Energy Index is derived from the Composite Index and tracks the performance of equity securities that are in the energy sector of the Toronto Stock Exchange ("TSX"). 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 TSX. The Preferred Index tracks the performance, on a market-weight basis and a total return basis, of preferred shares listed on the TSX that meet the criteria relating to size, liquidity and issuer rating. 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. The Indices' performance is 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. Additionally, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares. The performance information shown is based on net Asset value per Class A share and per unit, or the redemption price per Preferred share, and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per Class A share and per unit, or the redemption price per Preferred share in additional Class A shares, units and Preferred shares of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(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.sedarplus.ca.

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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