BROMPTON OIL SPLIT CORP.

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2020

Crude Oil Market Review

Oil prices have been extremely volatile during the first half of 2020 to say the least. We have anticipated broadly balanced supply-demand for oil at the beginning of this year. A selloff in crude oil was triggered in March by a ramp up in production by Saudi Arabia of more than 20% to 12 million barrels per day. The production ramp occurred around the same time a COVID-19 pandemic swept across the globe. The dual shock from global demand, especially China, and extended supply caused West Texas Intermediate (WTI) crude oil prices to plummet from US$61.18 at the beginning of 2020 to US$20.48 at the end of the first quarter. During the second quarter, WTI prices turned negative on April 20th for the first time in history as storage for crude oil runs close to full capacity amid a worldwide glut. Since then, WTI prices have recovered to around US$40 a barrel. Brent oil prices continue to trade at a premium but also experienced a decline during the quarter, albeit to a much smaller extent, to just below US$20 in April and closed the quarter at US$41.15. At current prices, free cash flow for U.S. mid-sized and small energy and exploration companies are threatened. In Canada, heavy oil spreads are trading at a discount of US$10.13 per barrel at the end of the quarter.

The International Energy Agency predicted global oil demand to drop by 9.3 million barrels per day in 2020 compared to 2019; China's oil demand is expected to suffer the most; oil demand in March declined by more than 10 million barrels per day compared to March 2019. As global aviation activity slowed down, jet fuel saw the largest decline in demand. For Q2 2020, demand is expected to be lower than Q2 2019 levels by 23.1 million barrels per day. A gradual recovery is then believed to take place through the second half of the year as more economies reopen and activity levels pickup. The outlook for the oil market is predicated on the duration of the COVID-19 outbreak and the strength of the subsequent recovery of economic activity.

During the second quarter, OPEC+ have reached an agreement to extend supply cut of close to 10 million barrels a day to July. We believe OPEC will remain data dependent and enact short-term cuts in the near term. States and cities around the globe have reopened during the second quarter to varying degrees and oil prices have been steadily rising in part due to a risk-on macro backdrop. The pace of shale expansion in the United States will likely slow as producers cut spending and scale back drilling activities. Capital discipline will remain a priority for shale producers. Over the short to medium term, the demand side of the equation is expected to improve as nations make progress on re-opening their economies. On the supply side, as the coronavirus wanes and economies return to normal, non-OPEC supply will continue to decline due to the sharp drop in capital spending in 2020. We expect non-OPEC production to decline by around 2 million barrels per day in 2020. Over the longer term, the combination of restrained OPEC production coupled with declining non-OPEC production could create the conditions for a much tighter oil market. This could lead to record draws on inventory as well as allowing OPEC to completely unwind its production cuts.

Portfolio Review

Units (1 Class A share plus 1 Preferred share) of Brompton Oil Split Corp. (the "Fund") were down 36.2% in the first half of 2020 as crude oil sold off abruptly in March and recouped some losses in the second quarter. The S&P/TSX Capped Energy Index was down 46.1% while the S&P 500 Energy Index was down 35.3% over the same period. While all the names in the portfolio were down for the period, top performers included TC Energy and Gibson, which were down 13.8% and 17.4%, respectively, considerably less than their peers. The weakest performers were Vermilion and Crescent Point Energy, who were more heavily impacted due to their oil exposure.

The portfolio is currently comprised of 20 North American oil companies – 13 in Canada and 7 in the U.S. Midstream companies in the portfolio including TC Energy, Gibson Energy and Pembina Pipeline should continue to outperform oil and gas producers and refiners. Pipelines have a smaller exposure to commodity prices given the contracted nature of their businesses. Pipeline capacity demand for egress out of the Western Canada Sedimentary Basin remains high and existing pipelines are operating at peak capacity, which should support earnings for the pipeline operators.

Looking out to the rest of 2020, we expect oil price pressure to abate towards the second half of the year. Over the years, the industry's cost structure has come down significantly which grants high quality oil producers the ability to cope with the current crisis. At current prices, oil producers will need to exercise capital discipline and we see the potential for further consolidation within the industry. In June, OPEC+ agreed to a one-month extension of around 10 million barrels a day of supply cut to July. Given proper compliance of OPEC+ nations, we believe oil producers are trading at very attractive valuations. In the long term, demand destruction is not expected to be permanent. The demand for transportation fuels has been disproportionately impacted by the pandemic as countries closed borders, but we believe the demand for travel will eventually return as quarantine measures begin to ease. Moreover, on-road transportation fuels (gasoline and diesel fuel) are recovering as social-distancing and quarantine restrictions get removed in the second quarter.

Given our constructive long-term outlook for oil, our view is that the sector is currently attractively valued. We see potential for oil prices to continue its climb given positive shifts in investor sentiment as COVID-19 related risks begin to wane. We believe that the current risk/reward proposition presents a buying opportunity for the oil producers.

Laura Lau, SVP & CIO

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Annual Compound Returns[1]	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Oil Split Corp. - Unit	(36.4%)	(17.9%)	(15.3%)	(15.3%)
S&P/TSX Capped Energy Index	(42.3%)	(21.0%)	(15.3%)	(15.7%)
S&P/TSX Composite Index	(2.2%)	3.9%	4.4%	3.5%

(1) Returns are for the periods ended June 30, 2020. The table shows the Fund's compound return on a 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") (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 (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 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.

(2) Inception Date February 24, 2015.

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