PORTFOLIO MANAGER COMMENTARY - SEPTEMBER 30, 2020

Crude Oil Market Review

Oil prices have been extremely volatile during 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 up occurred around the same time the 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. WTI prices turned negative on April 20 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 and remained steady at around US$40 a barrel throughout the third quarter. Brent oil prices continue to trade at a premium and closed the quarter at US$40.95. 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$10.84 per barrel at the end of the quarter.

In October, the International Energy Agency saw investment in oil and gas supply fell by one-third compared with 2019. A prolonged pandemic would cause oil demand to drop by more than 4 million barrels per day. China's oil demand is expected to suffer the most as oil demand in March declined by more than 10 million barrels per day compared to March 2019. During the third quarter, people continued to avoid non-essential trips and working from home remained the norm. We expect a slow recovery in aviation activities, as activity was still down by two-third in August compared to its normal July levels. The outlook for the oil market is predicated on the duration of the COVID-19 pandemic and the strength of the subsequent recovery of economic activity.

During the third quarter, OPEC+ agreed to lower the crude oil production cut to 7.7 million barrels per day starting in August, down from the previous level of 9.7 million barrels per day. 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 third quarter to varying degrees and oil prices have mostly stayed flat during the quarter. 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 managing COVID-19. 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 20.0% in the third quarter of 2020 as crude oil sold off abruptly in March, recouped some losses in the second quarter and remained mostly flat in the third quarter. The S&P/TSX Capped Energy Index was down 14.1% while the S&P 500 Energy Index was down 19.7% over the same period. While the majority of holdings in the portfolio were down for the quarter, top performers included Parkland Corp, Gibson and Keyera, which returned +5.3%, +3.7% and -0.6% respectively, considerably better than their peers. The weakest performers were Vermilion and Enerplus, who were more heavily impacted due to their oil exposure.

The portfolio was rebalanced and reconstituted in early October and the number of holdings decreased from 20 to 16 North American oil companies – 7 in Canada and 9 in the U.S. We currently favour oil producers that also have meaningful natural gas production. Low cost structure and recovering North American natural gas prices should help drive a meaningful acceleration in their free cash flow over the next few years. We added exposure to the U.S. by increasing the number of U.S. holdings from 6 to 9 through the addition of Cabot Oil & Gas, ConocoPhillips and Williams. Cabot operates in the natural gas development, exploitation, exploration and production segment. ConocoPhilips has approximately 30% of their revenue tied to Natural Gas;

and Williams gathers, stores and processes natural gas and natural gas liquids. Canadian holdings were taken down from 14 to 7 through the removal of Crescent Point, Cenovus, Enerplus, Ovintiv, Pembina, PrairieSky, Suncor, TC Energy, Vermillion and the addition of Tourmaline and ARC Resources. We believe the portfolio is positioned to benefit from a rebound as extreme energy price pressure abate. The portfolio holdings are spread across several sub-sectors including integrated oils, exploration & production, and pipelines/storage, and provide investors with exposure to key resource plays that we believe have the strongest return potential.

Looking out to the rest of 2020, we expect oil price pressure to slowly abate as oil prices stabilize. 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 are exercising capital discipline. Efficiency and well-productivity gains should help with cost management if production activity comes back online. We see the potential for further consolidation within the industry. In September, OPEC+ said they will be proactive in balancing the oil market. OPEC+ members have agreed to production cuts of 7.7 million barrels a day until the end of this year. Given proper compliance of OPEC+ nations, we believe oil producers are trading at 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 ease further. Moreover, on-road transportation fuels (gasoline and diesel fuel) are recovering as people resume domestic travelling during Q3.

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.

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Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Oil Split Corp. - Unit	(49.0%)	(46.9%)	(25.7%)	(15.8%)	(18.0%)
S&P/TSX Capped Energy Index	(53.7%)	(49.8%)	(27.5%)	(14.5%)	(17.3%)
S&P/TSX Composite Index	(3.1%)	0.0%	4.2%	7.1%	4.2%

(1) Returns are for the periods ended September 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.

BROMPTON FUNDS

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