Portfolio Manager Commentary - December 31, 2022

Global Markets Review

The 2022 market presented investors with a challenging environment. The Russia-Ukraine war, aggressive monetary tightening, and rampant inflation fueled a rise in recessionary concerns, sending most major global indices to their worst yearly performance in decades. All in all, the MSCI World Index slumped by 17.7%. Energy significantly outperformed and was the only sector that registered positive returns during the year (+47.7%), while Communication Services was the bottom-performing sector (-36.7%). In North America, the S&P 500 dropped by 18.1% with Energy also the best-performing sector. The S&P/TSX Composite edged down 5.8%, boosted by Energy (+30.9%) and Consumer Staples (+10.1%). In Europe, the STOXX 600 lost 9.9% for the year. Major European indices also finished the year in negative territory except for the U.K. FTSE 100 (+4.6%). Spain IBEX 35 and France CAC 40 were down by 2.0% and 6.7%, respectively. Italy, Germany, and Switzerland fell by 9.4%, 12.3%, and 14.3%, respectively.

Global economic growth was challenged by elevated inflation throughout 2022. The impact from exogenous shocks, such as the Russia-Ukraine war and China's Covid restrictions, faded during the back half the year. While inflation trended down from the June high (9.1%) to 6.5% by December, other major economic indicators in the U.S. confirmed an economic slowdown. Manufacturing PMI largely retreated in Q4 and entered December at 48.4, an indication of contraction if readings are below 50. Global bond markets remained volatile during the second half of 2022. The U.S. Treasury market kept rising in response to the inflation overshoot and monetary tightening, while the 2-year and 10-year Treasury spread went deeper below zero territory. The US dollar appreciated during the first three quarters thanks to a hawkish Federal Reserve, but weakened against major currencies during Q4 amid expected moderation in further rate hikes. Meanwhile, the Bank of Japan ended the year with a hawkish surprise of widening the target range for 10-year government bond yields, which spiked to the highest levels since 2015. Most equity markets made robust gains in Q4, with investors balancing a slower pace of central bank tightening, deceleration of inflation, and reopening in China. Energy, Industrials, and Materials were strengthened during the quarter. From a factor perspective, value generated the best risk-adjusted returns for 2022, which came at the expense of growth.

Central banks in developed economies continued to deliver hawkish stances of their monetary policy to combat inflationary risks, although the pace started decelerating. The Federal Reserve dialed back to a 50-basis-point hike in December after a 75 basis-point tightening in November, sending the target rate to the 4.25%-4.50% range. As investors expect a less aggressive Fed and attempt to evaluate where the tightening cycle would end, the Fed funds futures market is pricing in 60 basis points of tightening in the first half of 2023 and at least 40 basis points of cut in the second half of the year. However, as the discussion on Fed pivot is being debated, the tone could quickly change to an even higher target rate if inflation does not moderate further and the labor market remains tight.

The Bank of Canada (BoC) delivered two consecutive 50-basis-point policy rate increases at the October and December meetings, respectively. This sent Canada's overnight policy rate to 4.25%. As the central bank's rhetoric shifted from "the policy rate will need to rise further" to "considering whether the policy interest rate needs to rise further", the BoC's tightening cycle is likely nearing the zenith. Monetary policy is now considerably restrictive and risks to the economy are skewed to the downside if elevated policy rates persist, which could stem from high household debt levels and a weaker housing market.

The European Central Bank (ECB) continued raising the benchmark interest rate by 75 basis points at the October meeting, followed by a slower pace of 50 basis points in December. With the current benchmark interest rate at 2.5%, the Governing Council's hawkish rhetoric was largely unchanged, signaling that interest rates will still have to rise "significantly" further to tame inflation. Nonetheless, the ECB not only have to catch up to other major central banks such as Federal Reserve, but the Eurozone is also suffering from higher inflation, energy prices and geopolitical uncertainties, meaning that the ECB could be forced to raise rates aggressively even in a recession. Meanwhile, the Bank of England (BoE) also stepped down its hiking increment from 75 basis points in November to 50 basis points in December. The statement suggests that the labor market is top of mind to determine the path of policy rates in coming months. On the political front, Rishi Sunak was appointed leader of the Conservative party and became U.K.'s new prime minister, succeeding Liz Truss, who stepped down after only seven weeks of tenure.

During the second half of 2022, the market narratives continued to focus on inflationary risks and the path of tightening. While inflation appears to have decelerated during Q4, it remains elevated and well above central bank targets. We believe it will take some time for inflation to cool due to the stickiness of things like service inflation and lagging components like shelter. The pace of interest rate increases has begun to decelerate and is expected to be more modest in 2023. Having said that, we must acknowledge the

path to inflation reduction is not a linear one as there are elements of structural inflation that will likely persist in the future. These include, reversal of many globalization trends, underinvestment in infrastructure and commodities, and the cost of climate change and decarbonization. Moreover, low unemployment rates, elevated job-workers gap and higher wage growth will continue to tighten the labor market, making broader inflation more stubborn. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2022, the global economy is projected to grow 2.7% for both 2022 and 2023, revised down by 0.9 percentage points lower from the April forecast. Global inflation is forecast to decline to 6.5% in 2023 and further to 4.1% by 2024.

Looking forward to 2023 in our view, while the pace of monetary tightening will not likely exceed that of 2022, the uncertainty in the mix of growth, inflation, and recession risk will be an overhang to risk assets in the first half of 2023. We believe when companies report Q4 2022 earnings in early 2023, estimates will likely be revised downwards early to reflect the underlying economic conditions, which have been weakening. Therefore, we believe investors should stay defensive amid this volatile market regime. We continue to favour high quality companies that generate inflation-resistant cash flow, maintain stable margin levels, and demonstrate a consistent track record of capital return to shareholders. Staples, healthcare, and real assets should perform well in that regard. More opportunities should unfold in the back half of 2023 as additional economic data emerges to provide more clarity to the uncertainty, and when forward valuations begin to reflect probabilities of a post-recession environment. In high volatility market regimes, strategies that lower portfolio correlations, such as investing in low volatility styles and preferred shares, should enhance risk-adjusted returns. Additionally, Brompton's ability to lean on its covered call writing program to harvest volatility risk premia augments risk-adjusted returns, lowers portfolio volatility, and aids in funding distributions.

Portfolio Review:

Units (1 Class A share and 1 Preferred share) of Sustainable Power & Infrastructure Split Corp. ("the Fund") were down 12.6% during 2022.

The Fund was positively impacted by stock selection in Energy. Williams, ONEOK and Enbridge were the top contributors to the Fund's gains. Energy was the top performing sector in North America and Europe. The Energy sector benefited from geopolitical uncertainty brought on by the Russian-Ukraine conflict. Sanctions placed on Russia further restricted oil's flow and enhanced oil prices. We see no quick resolution on the horizon, and we remain optimistic on Energy fundamentals.

Gains were more than offset by lagging performance from Industrials. High quality industrials automation players and global transportation giants, including Schneider Electric, Siemens, ABB and Union Pacific, have seen rotation out of their respective sub-sectors into defensives. We trimmed our allocation to this sector during the year to position the portfolio more defensively. Auto players saw weak returns due to production disruptions caused by supply chain issues. We believe supply chain challenges will take multiple quarters to resolve. We continue to monitor the sector closely for changes in our thesis.

During Q4, investor sentiment has improved, and we have pivoted the Fund more offensively by increasing the Fund's allocations to Energy and Industrials. Unprecedented support for energy independence and greenhouse gas reduction should translate into capital expenditure and revenue growth opportunities for many of our Industrials, Energy and Utilities holdings in the long run. The portfolio currently consists of both defensive and cyclical names, with a bias towards defensives. We believe the Fund is appropriately positioned given our cautious outlook for the coming year.

Laura Lau, CIO

Michael D. Clare, SVP & SPM

Annual Compound Returns[1]	1-YR	Since Inception[2]
Sustainable Power & Infrastructure Split Corp. - Class A	(30.6%)	(13.5%)
Sustainable Power & Infrastructure Split Corp. - Preferred	5.1%	5.1%
Sustainable Power & Infrastructure Split Corp. - Unit	(12.6%)	(3.3%)

(1) Returns are for the periods ended December 31, 2022 and are unaudited. The table shows the Fund's compound return on a Class A share, Preferred share and unit for each period indicated. 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, or the redemption price per Preferred share and assumes that distributions made by the Fund on the Class A shares, Preferred shares and units in 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.

(2) Inception date May 21, 2021.

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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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