

Portfolio Manager Commentary - December 31, 2023

Global Markets Review

Global equity markets had a strong rally in 2023, bolstered by a combination of better-than-expected corporate earnings and resilient economies. Investors entered the year expecting a recession by the second half of the year. However, it did not play out as consensus expected. Inflation has receded, while the U.S. Federal Reserve (the “Fed”) finished its aggressive rate hike campaign without collapsing the economy. Technology was the best performing sector across major developed market indices. The MSCI World Index gained 24.4%. In North America, the S&P 500 rose 26.3%, with Technology (+57.8%), Communication Services (+55.8%), and Consumer Discretionary (+42.3%) significantly outperforming other sectors. The S&P/TSX Composite was up 11.8%, also supported by Technology. In Europe, the STOXX 600 registered 16.6% for the year. Italy FTSE MIB and Spain IBEX 35 surged 34.3% and 28.1%, respectively. Germany, France, U.K., and Switzerland all finished the period in the positive territory, up 20.3%, 20.1%, 7.7% and 7.1%, respectively.

Inflation has continued to fall, and many central banks expect it to decline more rapidly. It became apparent that a peak in interest rates was on the horizon in Q4. November CPI came in at 3.1%, the second lowest reading since its peak in June 2022. The labour market remains tight, supported by the historically low unemployment rate (3.7% in November), despite an increase in the labour force participation rate. The most recent economic data releases suggest that the U.S. economy was on its way to fulfilling the Fed’s goals of low inflation and low unemployment. Meanwhile, manufacturing PMI entered November at 46.7, an indication of contraction when the number is below 50. The bond market was volatile during the year, with the U.S. 10-year treasury yield plummeting below 4% in December from nearly 5% in October. However, the yield did not move much on an annual basis. The spread between 10-year and 2-year treasury yields narrowed during the fourth quarter, while remaining negative. Other global bonds such as the U.K. Gilt and the German Bund also mirrored the U.S. treasury. When looking at value versus growth throughout 2023, growth outperformed value for both large cap and small cap, on the back of the AI hype and peak interest rates. The Technology sector was the clear winner.

During the fourth quarter, global central banks in developed economies gradually delivered more dovish stances of their monetary policy amid cooling inflation. The Fed left interest rates unchanged at 5.25%-5.5% range in November and December Federal Open Market Committee (“FOMC”) meetings. In the December FOMC meeting, Fed Chair Jerome Powell signaled that the central bank was likely finished raising interest rates and is “just at beginning of discussion on policy easing”. Encouraged by the likely peak inflation and potential rate cuts on the horizon, the Fed funds futures market is pricing in total rate cuts of 150 basis points in 2024 starting in May. In an optimistic sign heading into the new year, the Fed pivot saw a significant rise in equity flows. Current debates are focused on whether the Fed will cut rates as aggressively as the market anticipates and whether inflation will stay on its moderating path, resulting in a soft landing.

The Bank of Canada (“BoC”) kept the overnight policy rate at 5% in October and December meetings. The BoC communicated that policymakers will consider cutting interest rates when inflation is clearly on the path to a 2% target and it is still too early to consider easing. The central bank also acknowledged that the rate hikes are one of the main contributors to headline inflation in Canada. However, the Canadian economy appears to be downshifting, evidenced by consecutive months without posting a single month-over-month of economic growth. Also, activities in wholesale trade, manufacturing, and real estate were contracting so household debt should see temporary relief if inflation keeps moderating and rate cuts are in sight.

The European Central Bank (“ECB”) left the benchmark interest rate unchanged at 4.5% at the October and December meetings. The Governing Council was not yet convinced that the outlook for underlying inflation has improved sustainably and reiterated that policy rates “will be set at sufficiently restrictive levels for as long as necessary”. Recent inflation readings in the Euro Area suggest that Energy and food costs have dropped. However, price pressure remains elevated given ongoing strong labour cost growth. Furthermore, the Council also announced the plan to phase out the Pandemic Emergency Purchase Program (PEPP): the ECB will reduce PEPP holdings in the second half of 2024 and end reinvestments at year end. Meanwhile, the Bank of England (“BoE”) also held the policy rate unchanged at 5.25% and emphasized that rates need to remain restrictive for an extended period given its forecast. Like the Euro Area, core inflation in the U.K. has decelerated notably in recent months, but wage pressure showed sequential slowing, meaning that the BoE could shift to a more dovish direction faster than expected.

Investor sentiment improved during 2023. Despite uncertainties surrounding U.S. regional bank failures, slower China recovery, and the Israel-Hamas conflict, plenty of good news fueled the market rally, namely slowing inflation, peaked policy rates, and Artificial Intelligence hype. At the same time, U.S. corporate earnings appear to have bottomed in the second quarter of 2023. Powered by the solid performance of Magnificent Seven (Meta, Nvidia, Amazon, Apple, Alphabet, Microsoft, Tesla), which comprises more than 25% of the market value of the S&P 500, the index finished the year with robust returns. As U.S. equity valuations become even more expensive compared to major global equity markets, investors have sought opportunities in markets with low valuations. For instance, Japan's TOPIX Index posted 28.3% return in 2023 (in JPY terms). We have seen increasing global fund flow into this market, especially first-time Japanese equity investors overseas. According to the latest World Economic Outlook update issued by the International Monetary Fund in October 2023, the global economy is projected to grow 3.0% in 2023 and 2.9% in 2024, with the former unchanged and the latter revised down by 0.1 percentage point from the July forecast. Global inflation is forecast to decline to 6.9% in 2023 and further to 5.8% in 2024.

Looking forward to 2024, we believe global central banks will keep short-term interest rates higher to ensure inflation is under control. Markets are complacent about how quickly central banks, especially the Fed, will cut rates in 2024. But it is worth remembering that even if they did, policy would remain restrictive into 2025. We expect interest rates to come down from the elevated post-COVID levels, but the "last mile" to get closer to 2% inflation will be a slow grind. As a result, yields will continue to play an important role in dictating leadership between value and growth. Companies with long duration assets such as Telecommunications, Utilities, and Real Estate should benefit from the long-term rate decline thesis. Furthermore, geopolitical turmoil in the Gaza Strip and China's stimulus could also fuel market uncertainty. Stock picking will remain an important driver of alpha, and we continue favoring a barbell approach as our portfolio strategy. Brompton also expects volatility and believes that investors will be well-served by strategies that have historically demonstrated lower volatility than the market, such as dividend growth and covered call strategies.

Portfolio Review:

Units (1 Class A share plus 1 Preferred share) of Sustainable Power & Infrastructure Split Corp. (the "Fed") were up 9.1% during 2023.

The Fund was positively impacted by our selections within Industrials and Technology. Our top performers were Hitachi, Schneider Electric and Roper Technologies, all of which were up over 25% each. We positioned the portfolio to take advantage of several important themes such as government subsidies on infrastructure and de-carbonization, demand for Electric Vehicles and building materials to name a few.

Positions in Real Estate partially detracted from our positive performance. The worst performers were SBA Communication, Glencore and Exelon. Real Estate was weak for most of the year as rising interest rates put pressure on companies with high debt loads. The transactions market for real estate also ground to a halt due to the increasing cost of financing.

During Q4, we increased our exposure to Utilities and Materials, funding them through sales in Industrials, Real Estate and Technology. With rates likely having peaked and potentially being cut next year, we believe that interest rate sensitive sectors such as Utilities are positioned for a reversal.

The Fund's portfolio continues to meet the Fund's ESG related investment objectives and strategies. The securities that the Fund sold and purchased in 2023 were a result of many different factors, including re-allocation of sector weighting, fundamental analysis and technical analysis. None of the securities sold in 2023 were a result of them not meeting ESG characteristics. The new purchases in the Fund's portfolio all, in the Manager's view, have positive and/or improving ESG characteristics.

Prysmian, which produces cables that are key to enabling wind power and upgrading the electrical grid, was purchased because it is a key beneficiary of renewable energy spending. Siemens was also purchased for its role in enabling the development of renewable energy projects as well as the electrification solutions it offers for public transit and smart infrastructure to reduce energy usage. Linde, which produces industrial gases for the production of green hydrogen, has a third of its energy consumption as low carbon, and plans to reduce GHG emissions by 35% by 2028. Air Liquide aims to triple its hydrogen sales by 2035. BMW was bought because the Manager believes that its electrification product offerings will provide energy saving solutions and reduce fossil fuel dependency. Trane Technologies was purchased because it is a global climate innovator that brings efficient and sustainable climate solutions to buildings, homes and transportation. Cameco is benefiting from the nuclear renaissance to produce emission-free base load power. Enel is one of the largest renewable developers in the world. General Electric produces the equipment that is critical for renewable energy production. Parker Hannifin products go into end markets that enable clean technologies such as filtration fluid and smart HVACs. Parkland as

grid to support the transmission of more electricity. Targa Resources is committed to reducing its emissions and provides important details on how it will minimize its impact on the environment.

Annual Compound Returns ¹	1-YR	Since Inception ²
Sustainable Power & Infrastructure Split Corp. - Class A	15.9%	(3.2%)
S&P Global Infrastructure Total Return Index	6.8%	3.9%
MSCI World Index	24.4%	5.0%
Sustainable Power & Infrastructure Split Corp. - Unit	9.1%	1.3%
Sustainable Power & Infrastructure Split Corp. - Preferred	5.1%	5.1%
S&P/TSX Preferred Share Index	5.9%	(3.1%)

(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 Global Infrastructure Total Return Index ("Infrastructure Index"), the MSCI World Index ("MSCI Index"), and the S&P/TSX Preferred Share Index ("Preferred Share Index") (together the "Indices"). The Infrastructure Index tracks 75 companies from around the world, chosen to represent the listed infrastructure industry and related operations. The index includes three distinct infrastructure clusters: energy, transportation, and utilities. The MSCI Index captures large- and mid-cap representation across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country. The Preferred Share Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the TSX that met the criteria relating to size, liquidity and issuer rating. The Fund invests in an actively managed portfolio. It is therefore not expected that the Fund's performance will mirror those of the Indices which have more diversified portfolios. 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, 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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You will usually pay brokerage fees to your dealer if you purchase or sell shares of the Fund on the Toronto Stock Exchange or other alternative Canadian trading system (an "exchange"). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment fund and may receive less than the current net asset value when selling them.

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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