

Technology Sector Review & Outlook

Technology stocks drove market performance this past year, particularly mega cap tech which accounted for two-thirds of the S&P 500 returns. While sector valuations appear stretched trading at a 10.7 point premium (97th percentile over the past 10 years) to the S&P 500, it remains below the recent peak of 13.6x premium. Mega cap tech stocks, referred to as the Magnificent Seven, are trading at a more attractive and Brompton believes reasonable valuation, a 7 point premium to the S&P 500 on a forward P/E basis (37th percentile) well below prior peak of 14.4 and median at 7.7. Mega cap tech companies have high recurring revenue, significant operating leverage and solid free cash flow generation. Best in class ones have high rates of invested capital and many of these companies also have a track record of returning capital to shareholders in the form of share buybacks and dividends. This offensive/defensive characteristic along with share buybacks can put a reasonable floor to valuations during market turbulence. During the back half of the year, cooling of the mega cap tech rally allowed other tech stocks to catch up in terms of multiple expansion thus expanding sector breadth and solidifying a more durable rally.

Global IT spending is expected to reach \$5.1 trillion in 2024, up 8% Y/Y according to Gartner. The software and IT services segments will both see double-digit growth in 2024, 13.8% and 10.4% respectively, largely driven by cloud spending. Global spending on public cloud services is forecasted to increase 20.4% in 2024, driven by a combination of cloud vendor price increases and increased utilization. Datacenter spending is expected to grow 9.5% and device spending is projected to rebound with 4.8% growth in 2024 after a lackluster year in 2023 (spending down 10% given inflationary headwinds). While investments in Artificial Intelligence is constructive towards IT spending, the effects will not be felt in IT budgets until 2025 according to Gartner.

The Global semiconductor market is projected to grow 20% to \$633 billion according to IDC. Growth is driven by the recovery in the memory market, after supply chain inventory depletion in 2023 as well as AI applications across data centers, automotive and personal devices. Automotive electrification and advanced driver assistance systems (ADAS) continue to be robust with ADAS growing at 20% CAGR by 2027 according to IC Insights. Cloud providers continue to allocate more capital towards AI servers, which currently represent 15% to 20% of capex. Capacity utilization for global foundries is expected to recover in 2024 given stabilization in end-user demand across PCs and smartphones. China has been expanding production capacity given the US export ban.

We continue to believe the technology sector remains a structural growth story. Over the long-term the digital transformation opportunity, which is underpinned by enabling technologies such as cloud, hyper connectivity (e.g. 5G), digital media, e-commerce, payments and intelligent automation, provides many avenues for growth. Disruptive emerging technologies, such as artificial intelligence and quantum computing, are expected to reshape business models and drive economic value add in the global economy. We are entering another inning in the AI revolution given the pace of technological advancements, development of AI applications and machine learning algorithms. Today AI systems are becoming more sophisticated and one step closer to competing with human intelligence. Mega tech companies have a significant number of AI patents, offer machine learning-as-a-service, and can leverage their large userbase in driving AI adoption. Large enterprise software companies have begun to offer intelligent decision-making capabilities in their software as well as intelligent automation. Leading chip manufacturers and related semiconductor companies provide the silicon building blocks that make AI possible.

AI has the ability to disrupt the global economy over the longer term and drive the next leg of growth. AI could contribute up to \$15.7 trillion to the global economy in 2030, more than the current output of China and India combined, according to a report by PwC. AI transformation is three pronged: 1) automation – creation of a new virtual workforce; 2) augmentation – AI can augment human labour; and 3) diffusion – AI innovations could drive transformational changes in the economy (new industries, business models etc.). Stocks in our portfolio are uniquely positioned to benefit from this growth given their respective market position in the products and services they offer as well as degree of innovation that enhances competitive moats.

Portfolio Review

Brompton Tech Leaders Income ETF (the “Fund”) was up 47.9% in 2023 versus the S&P 500 Equal Weighted Information Technology Index up 35.7%.

The Fund’s overweight exposure to software and services contributed to performance which was ahead of benchmark holdings. Top performing holdings were ServiceNow (up 82%), Cadence (up 70%) and Adobe (up 64.5%).

An underweight exposure to semiconductors contributed to performance ahead of benchmark holdings. Top performing holdings include Nvidia (up 239%), Broadcom (up 104%) and Advanced Micro Devices (up 83%).

The Fund was underweight hardware and equipment with performance lagging the benchmark. Top performing holdings include Apple (up 49%), CDW (up 29%) and Motorola (up 10.4%).

The Fund’s overweight exposure to non-benchmark sectors (consumer discretionary and media & entertainment) contributed to performance which was ahead of benchmark holdings. Top performing holdings include Meta (up 103%), Alphabet (up 59%), and Amazon (up 24%).

Annual Compound Returns ¹	1-YR	3-YR	5-YR	10-YR	Since Inception ²	Since Inception ³
Brompton Tech Leaders Income ETF (CAD Hedged)	47.9%	11.0%	21.0%	14.7%	13.6%	-
Brompton Tech Leaders Income ETF (USD)	49.1%	12.1%	-	-	-	20.0%
S&P 500 Equal Weight Information Technology Index	35.7%	9.9%	19.9%	17.2%	16.3%	17.1%
S&P 500 Information Technology Index	57.8%	15.1%	26.9%	20.8%	19.6%	24.4%
S&P/TSX Composite Index	11.8%	9.7%	11.3%	7.6%	6.7%	9.3%

(1) Returns are for the periods ended December 31, 2023 and are unaudited. The table shows the Fund’s compound return for each period indicated, compared with the S&P 500 Equal Weight Information Technology Index (“Technology Index”) and the S&P/TSX Composite Index (together the “Indices”). The Technology Index, a sub-index of the S&P 500, tracks the performance of major North American information technology companies on an approximately equal-weight basis. The Composite Index tracks the performance, on a market-weight basis, of a broad index of large-capitalization issuers listed on the TSX. Since the Indices contain a substantially larger number of companies, it is not expected that the Fund’s performance will mirror that of the Indices. Furthermore, 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. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund on its units in the period shown were reinvested at net asset value per unit in additional units of the Fund.

(2) Inception Date May 20, 2011.

(3) Inception Date August 8, 2019.

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Commissions, trailing commissions, management fees and expenses all may be associated with exchange-traded fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income tax payable by any securityholder that would have reduced returns. Exchange-traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

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