TLF

Brompton Tech Leaders Income ETF

Portfolio Manager Commentary - March 31, 2025

U.S. Market Review

Looking forward to the rest of 2025, in our view, the tariff fears and trade tension introduced by the Trump administration will continue to weigh on the U.S. economic outlook, as these policies complicate Federal Reserve's monetary decisions and overshadow corporates earnings. Value stocks have outperformed relative to growth, and we believe that rotation into defensive sectors will continue. Conversely, growth stocks, particularly those tied to AI hype, are likely to remain vulnerable amid economic headwinds and elevated valuations. We need more economic data such as CPI and unemployment to confirm an economic downturn, but leading indicators such as business and consumer confidence readings are already showing significant declines, raising concerns about U.S. growth prospects. We expect heightened volatility levels to continue, creating opportunities for covered call strategies to generate additional income and lower portfolio volatility.

Technology Sector Review & Outlook

Technology stocks lagged the broader market in Q1 2025, with the S&P 500 Information Technology Index down 12.7% vs the S&P 500 Total Return Index down 4.3%. Escalating trade wars continue to drive a level of near-term uncertainty in the global economy and remains a headwind for the technology sector. As a result, there was an unwind of momentum and tech stocks exposed to the Artificial Intelligence theme particularly the 'Magnificent 7' stocks underperformed, down 16%. Investors are evaluating potential recessionary forces which could ignite a slow down in tech spending particularly in discretionary line items where AI falls under in many IT budgets.

The release of DeepSeek in China appears to have lowered the cost and capital intensity for training AI models and as a result there has been some resetting of lofty expectations regarding AI infrastructure spending. DeepSeek uses a distillation process which, involves training smaller, more efficient models to mimic the behaviour and reasoning patterns of the larger DeepSeek model by using it as a teacher—essentially transferring the knowledge and capabilities of the 671 billion parameter model into more compact architectures. In the near-term, we believe capital spending by larger hyperscalers will be unaffected. Regardless, it's more of a battle between close end systems and open-source frameworks. The latter lowers costs and drives network effects amongst the developer community. History has shown that as costs go down, adoption levels go up. The decline in costs for developing AI frameworks is ultimately a long-term tailwind for providers of AI (semis, hyperscalers, software infrastructure etc).

Global IT spending is expected to reach $5.74 trillion in 2025, up 9.3 % Y/Y according to Gartner. Data center systems and software segments will both see double-digit growth in 2024, 24% and 12.6% respectively, largely driven by cloud spending. Growth is being driven by datacenters, up 34.7% to $318 billion given strong demand for generative AI. Spending on software is expected to increase 14% to $1.23 trillion and IT services is expected to grow 9.4% to $1.73 trillion. Spending on Generative AI (GenAI) is expected to reach $644 billion in 2025, up 76% Y/Y driven largely by the integration of AI capabilities into hardware, such as servers, smartphones and PCs.

The Global semiconductor market is projected to grow 15% to $727 billion according to IDC. Growth is driven by the memory segment, up 24%, given increasing penetration of high-end products such as high bandwidth memory because of increasing demands for AI applications. The non-memory segment is expected to grow 13%, mainly due to the strong demand for advanced nodes for AI servers and high-end mobile phones. Trade wars and potential tighter semiconductor sanctions on China focusing on specific chip types and end-market applications such as high-grade communication and AI compute chips could be a headwind to the industry. Sanctions risks will likely be correlated more to the chips' applications and its nodes, rather than a company's overall revenue exposure to China. While US chip makers would be disproportionately affected, partially offsetting this would be streamlined US chip manufacturing and eased data-center regulations that will likely boost domestic growth.

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. Generative AI is poised to be a $1.3 trillion market by 2032 as it boosts sales for the tech industry's hardware, software, services, ads and gaming segments at a compound annual rate of roughly 43%, according to Bloomberg. 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.

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. 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

In Q1 2025, Brompton Tech Leaders Income ETF was down 10.3% versus the S&P 500 Equal Weighted Information Technology Total Return Index, which was down 8.4%

The Fund was market weight software and services with performance lagging benchmark holdings. Top performing holdings were SAP (up 9%), Automatic Data Processing (up 5%) and Crowdstrike (up 3%).

The Fund was underweight semiconductors, with performance behind benchmark holdings. Micron was our only top performer (up 3.4%).

The Fund was market weight hardware and equipment with performance ahead of the benchmark. Cisco was our only top performer (up 5%).

An underweight exposure to IT services contributed to performance which was ahead of benchmark holdings. IBM was our only top performer (up 13.9%).

The Fund's overweight exposure to non-benchmark sectors (consumer discretionary and media & entertainment) detracted from performance with Meta, Amazon and Alphabet all down in the quarter.

Annual Compound Returns[1]	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception[2]	Since Inception[3]
Brompton Tech Leaders Income ETF (CAD Hedged)	(10.3%)	(2.4%)	9.7%	19.6%	14.6%	13.0%	-
Brompton Tech Leaders Income ETF (USD)	(9.7%)	(0.9%)	11.1%	21.0%	-	-	17.4%
S&P 500 Equal Weight Information Technology Total Return Index	(8.4%)	(1.9%)	6.8%	17.8%	15.6%	15.2%	14.2%
S&P/TSX Composite Total Return Index	1.5%	5.9%	13.8%	24.3%	20.6%	19.2%	22.3%

(1) Returns are for the periods ended March 31, 2025 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 Total Return Index ("Technology Index") and the S&P/TSX Composite Total Return Index (together the "Indices"). The Technology Index, a sub-index of the S&P 500 Index, 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 and a total return basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Fund is actively managed; therefore, its performance is not expected to mirror that of the Indices. Furthermore, the Indices' performance is 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. The performance information shown is based on net asset value per CAD and USD unit and assumes that cash distributions made by the Fund during the periods shown were reinvested at net asset value per CAD or USD unit in additional units of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future.

(2) Inception Date May 20, 2011.

(3) Inception Date August 8, 2019.

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

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