Brompton Tech Leaders Income ETF (TSX: TLF; TLF.U)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2021

Global Markets Review

It has been one year since COVID-19 was declared a global pandemic. Global stock markets extended the recovery seen since November last year to close at all-time highs during the first quarter of 2021. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 5.0% with the Energy sector the best performing sector, gaining 22.2% during the quarter; Financials was the second-best performing sector, outperforming the MSCI World Index by 8.3%. In North America, the S&P 500 was up 6.2% led by gains from the Energy sector, while the S&P/TSX Composite was up 8.1%, with Heath Care and Energy as the top performing sectors. In Europe, the STOXX 600 was up 8.4% for the quarter. Italy and France had the best performance, where the FTSE MIB and CAC 40 were up 11.3% and 9.6%, respectively. Germany's DAX gained 9.4%. Spain and U.K. also finished the quarter with solid returns as the IBEX 35 and FTSE 100 increased 6.7% and 5.0%, respectively.

During the quarter, global economies continued the path to recovery while certain parts of the world combated a third wave of COVID-19. We saw sequential improvement in manufacturing production as the March PMI reached a record high of 64.7 in the U.S., the unemployment rate continued declining during the first quarter. In the U.S., Democrats gained control of both the Congress and the White House for the first time since 2011. Election of Joe Biden as the 45th president of the United States paved the way for further fiscal stimulus. Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs in March. At the same time, as a reflection of the improved growth outlook, global yield curves steepened and the U.S. 10-year treasury yield recovered to above 1.7%. Cyclical parts of the economy led the equity market rally, with Energy, Financials, Industrials and Materials gaining the most, while defensive sectors such as Consumer Staples and Utilities lagged. Performance of Information Technology stocks was lackluster overall due to investor sentiment shifting away from large capitalization growth names during the quarter. Risk appetites continue to favor pro-cyclical stocks as global economies pick up its pace.

Effective central bank and government policies played an essential role in the recovery of global equities. In North America, both the Federal Reserve and the Bank of Canada (BoC) remained highly accommodative and kept interest rate unchanged during the first quarter. In March, President Biden signed a US$1.9 trillion pandemic relief bill, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance and childcare support among other assistance. During the most recent FOMC meeting in March, the Fed saw Q1 2021 GDP expanding at a faster pace than Q4 of 2020 as well as improvement in labor market conditions. Consumer spending also fared better than Q4 of last year. In Canada, GDP growth in Q1 of 2021 is expected to be positive rather than the contraction projected back in January. While higher commodity prices and improvement in demand brightened the prospect of a recovery, employment levels remain well below pre-COVID levels. As such, the BoC expect to hold policy interest rates at the current level until at least 2023.

In Europe, the European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. ECB's president Christine Lagarde noted the uncertainty surrounding Europe's economic outlook due to the ambiguous dynamics of the pandemic and the unpredictable speed of inoculation campaigns. The Governing Council is continuing the current pace of purchase under the pandemic emergency purchase programme (PEPP) in the amount of EUR1,850 billion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB projects an annual real GDP growth of 4% and an annual inflation rate of 1.5% in 2021.

At the end of the first quarter, the number of confirmed infections worldwide exceeded 134 million, about one and a half times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with the U.S. having administered 171 million doses of the vaccine as of the first week of April. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020 driven by easing of lock-down measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook; such as whether the new COVID-19 strains are susceptible to current vaccines, capacity adjustments in the economy and effectiveness of global policies.

Looking forward to the rest of 2021, we believe the rotation into pro-cyclical sectors is set to continue. First, wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan and the proposed US$2.25 trillion infrastructure plan since his election, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading the upcoming quarter. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into the upcoming quarters.

Technology Sector Review & Outlook

Our outlook for the technology sector remains positive given line of sight in reopening of the economy as a result of the Covid-19 vaccine. The pandemic accelerated the digital transformation trends that had already been in motion and we see these trends (cloud, 5G, intelligent automation and Internet of Things) continuing to grow.

Global IT spending is expected to rebound in 2021, up 4% to $3.7 trillion according to Gartner. Enterprise software is expected to have the strongest rebound in 2021 up 7.2% given the acceleration of digitalization efforts by enterprises and resumption of large-scale software implementations. Data center spending is projected to grow of 5.2% in 2021 as providers accelerate data center build out given the increasing demand for cloud computing and resumption of enterprise data center expansion.

Spending by the global semiconductor industry is expected to increase 14% to $129 billion in 2021, according to IC Insights. The industry is looking to bring additional manufacturing capacity online given supply shortages which is plaguing the broader technology industry. Unexpected robust demand for semiconductor chips in data centers and consumer devices during the pandemic and holiday season along with strong recovery in cyclical industries have overwhelmed the supply chain and, as a result, car manufacturers are currently experiencing shortages. Only 10% of semiconductor plants are used for making chips for the automotive sectors, which further exacerbates the issue. According to Bloomberg chip shortages are expected to wipe out $61 billion of sales for automakers in 2021 with China affected the most (40% of the impact). The chip shortage is expected to spill over into the consumer devices sector with manufacturers tempering the outlook for product shipment. President Biden's expansive infrastructure proposal includes $50 billion for the American semiconductor industry, which will go toward production incentives, research and design. Chip manufacturing has become a growing focus among US lawmakers, who are more attuned to the competition with China across an array of sectors. We note that the United States share of global semiconductor manufacturing has fallen to 12% today from 37% in 1990 according to Bloomberg.

The propensity of increasing regulations around big tech continues to be a concern. US President Joe Biden has spoken assertively about tech regulation and he suggested revoking Section 230 of the Communications Decency Act, which holds that online platforms are not liable for what users post on them. In the UK, the Competition and Markets Authority wants to be able to impose fines of up to 10% of global revenue on tech companies that abuse their market position. In the EU, the Digital Service Act regulation suggests that tech companies may be banned from preferential treatment of their own services on their sites/platforms, to the detriment of rivals, and that companies should not be allowed to pre-install their own applications on hardware devices, or force other companies to exclusively pre-install their software.

During Q1, significant changes in yields drove extreme factor rotations away from growth-momentum into value. These extreme rotations are usually short lived as rates typically normalize. With line of sight to economic reopening given proliferation of Covid-19 vaccine and fiscal stimulus kickstarting the economy, reflationary expectations will continue to drive factor rotation away from growth into cyclical and value styles in our view. Our portfolio is well position to benefit from these factor rotations given Brompton actively manages the weighting in cyclical tech such as semiconductors, hardware and software that have exposure to industrial, automotive and infrastructure segments.

Overall, the technology sector remains an attractive structural growth story. 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 both in the near and long term. 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

Brompton Tech Leaders Income ETF (the "Fund") was up 3.7% in Q1 2021 versus the S&P 500 Equal Weighted Information Technology Index, which was up 6.6%.

The Fund's overweight position in the software subsector detracted from performance relative to the benchmark given the growth-value rotation that occurred during the quarter. The top performing holding was Microsoft (up 6.3%).

A market weight position in IT services did not overly detract from the Fund's performance relative to the benchmark. Top performing holdings include Accenture (up 6%) and PayPal (up 3.7%).

The Fund's exposure to semiconductor contributed to outperformance relative to the benchmark despite its market weight position. Top performing holdings include KLA (up 28%), ASML (up 26.6%) and Taiwan Semiconductor (up 8.9%).

A relative market weight in the hardware subsector detracted performance relative to the benchmark with Logitech (up 7.5%) partially offset by weakness in Apple (down 7.8%).

The Fund is overweight technology-related sub sectors such as interactive media and internet media given its holding in Alphabet (up 18%) partially offset Amazon (down 5%).

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[4]	1-Year	3-Year	5-Year	Since Inception[2]	Since Inception[3]
Brompton Tech Leaders Income ETF (CAD Hedged)	70.7%	23.5%	24.0%	14.5%	-
Brompton Tech Leaders Income ETF (USD)	72.8%	-	-	-	35.4%
S&P 500 Equal Weight Information Technology Index	72.0%	23.2%	25.4%	18.6%	33.4%

(1) Returns are for the periods ended March 31, 2021. Inception date May 20, 2011. The table shows the ETF's compound returns for each period indicated compared with the S&P 500 Equal Weight Information Technology Index ("Technology Index"). 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. Since the Technology Index contains a substantially larger number of companies, it is not expected that the ETF's performance will mirror that of the Technology Index. The Technology Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the ETF is calculated after deducting such fees and expenses.

(2) Inception Date May 20, 2011.

(3) Inception Date August 8, 2019.

The Fund has changed its technology benchmark from the S&P Information Technology Index to the S&P Equal Weight Technology Index. The S&P Equal Weight Technology Index tracks the performance of information technology companies included in the S&P 500 Index on an approximately equal weight basis. The S&P Information Technology Index, a sub-index of the S&P 500 Index, tracks the performance of information technology companies on a market cap weighted basis. Since the Fund also invests on an approximately equal weight basis the Manager believes that the S&P Equal Weight Technology Index provides a more comparable benchmark to assess relative performance of the Fund.

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3