Brompton Global Dividend Growth ETF (TSX: BDIV)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - JUNE 30, 2020

Global Markets Review

Following a swift market sell-off in March, both North American and European equity markets enjoyed a sharp rebound during the second quarter. For the six-month period ended June 30, 2020, the MSCI World Index decreased 5.5% led by losses from the Energy sector, which declined 35.2%, while Information Technology was the best performing sector, outperforming the MSCI World Index by 19.6%. In North America, the S&P 500 was down 3.1%, while the S&P/TSX Composite was down 7.5%. Information Technology was the best performing sector for both indices. In Europe, the STOXX 600 was down 11.7%, led by Spain and the U.K., where the IBEX 35 and the FTSE 100 were down 22.9% and 16.8%, respectively. France's CAC 40 and Italy's FTSE MIB both lost 16.2%, while Germany and Switzerland equities also finished the period in negative territory as the DAX returned -7.1% and the SMI returned -2.3%. During the second quarter, most countries around the globe made significant progress in COVID-19 containment. European countries have been able to control the spread of COVID-19 much better than the U.S. As it currently stands, the U.S. remains as the country with most confirmed cases of COVID-19 per million population.

Equity market performance during the first half of 2020 can be analyzed in two distinct time frames, namely a period prior to the pandemic and one after the pandemic began. Prior to the pandemic, policymakers saw 2020 as likely a year of steady growth with continued strength in the job market. Fed Chair Jerome Powell expressed cautious optimism which was in stark contrast to 2019 where the Fed cautioned against effects of the U.S.-China trade war on the economy. This optimism drove equity markets to new highs on February 19th, where Information Technology, Utilities and Consumer Discretionary sectors led the market. Following the COVID-19 outbreak, the S&P 500 ended its eleven-year bull run and officially entered into bear market territory in March, but was followed by a swift recovery off its March 23 low in the second quarter, marking the fastest market decline in history and the strongest S&P 500 quarterly return since 1998. Unprecedented monetary and fiscal policy support around the globe in combination with re-opening of economies gave investors reasons for optimism during the second quarter. Cyclical sectors including Energy, Materials and Consumer Discretionary led the recovery while defensive sectors including Utilities, Consumer Staples and Communication Services lagged.

During the second quarter, governments around the world implemented varying degrees of re-opening plans, along with more forceful virus containment measures including the enforcement of mask-wearing and restrictions on bar and dining activities. Numerous economic data points showed signs of inflection. Unemployment rates in the U.S. have rolled off from the April peak of 14.7% to 11.1%, albeit still at levels substantially higher than the pre-pandemic low of around 3.5%. U.S. PMI also showed sequential improvement, inflecting from April's low of 41.5 to 52.6 in June. These signals provided a boost of confidence for equity investors, which in turn lifted global equities. Performance of Information Technology stocks were especially strong, as work from home trends pushed for a surge in bandwidth demand and IT usage. Consumer Discretionary has also seen meaningful gains as retail activities pick up.

Effective policies played an essential role in putting a floor on global equities. Policy makers around the world acted swiftly to launch an unprecedented range of emergency programs. In the U.S., the Federal Reserve has kept policy rates at 0%-0.25% throughout the second quarter and during the latest FOMC meeting, the Committee stated that it expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. Moreover, fiscal support for the first half of 2020 can be grouped into four broad categories:

1) Direct aid to households of US$740 billion, which includes one-time payments to households, expanded unemployment insurance benefits and paid sick leave for works of small and medium-sized businesses. According to the Treasury Department, nearly all of the stimulus checks had been disbursed by the end of May.

2) Loans and grants to small businesses of roughly US$760 billion.

3) Other aid to businesses including tax reduction and relief of US$420 billion.

4) Direct government purchases and aid to state and local governments for expenses related to dealing with the pandemic in the amount of US$260 billion.

In Canada, following three rate cuts in the first quarter of 2020, the Bank of Canada (the "BoC") has kept interest rates unchanged at 0.25% during the second quarter to combat the impact of COVID-19 on the economy. Incoming data confirmed the severe impact of the COVID-19 pandemic, but the impact appears to have peaked. On the fiscal policy side, Canada has increased the amount of direct support to workers through increasing the Canada Emergency Response Benefit and made additional liquidity available to businesses. The BoC expects the global recovery to be protracted and uneven. While the outlook for the second half of 2020 and beyond remains heavily clouded, the Bank expects the economy to resume growth in the third quarter.

In June, the European Central Bank (the "ECB") decided to increase the envelope and extend the horizon for the pandemic emergency purchase program (PEPP) and to reinvest its maturing principal payments, while continuing with the current asset purchase program (APP) and keeping the key ECB interest rates unchanged. European Union (the "EU") leaders started formal discussion on the European Commission's proposal for both the EU budget and the associated Recovery Plan in the amount of EUR750 billion. Germany announced a second stimulus package in June featuring a EUR20 billion tax cut, additional income support for smaller businesses and expense cut for households. France's stimulus package for 2020 is now equivalent to around 6% of GDP, including additional support for furloughed workers and small businesses, health spending and tax exoneration for certain sectors.

According to the latest World Economic Outlook update issued by the International Monetary Fund (the "IMF") in June 2020, global gross domestic product is projected to contract 4.9% this year. The pandemic has had a more negative impact on the first half of 2020 than previously expected and the pace of recovery will be more gradual. The IMF projected the global growth rate for 2021 to be 5.4%. The path to recovery is predicated upon efficacy of containment efforts, implementation of effective testing, and discovery of a vaccine; layered on top of all these is the restoration of consumer confidence. The intricacy of interactions between multiple factors at play makes forecasting a difficult exercise. However, we do know that the powerful, synchronized, and broad-based fiscal and monetary support demonstrate the willingness of policymakers to take extraordinary steps to alleviate stress in the economy. Equity markets have indeed reacted favourably; the MSCI World and the S&P 500 are almost flat year to date and most major indices are up double digit for the quarter. Western Europe and Developed Asia have reopened substantially with minimal effect on virus transmission at national levels. In the United States, the major outbreak in the New York Tri-State Area has been tamped down, resembling the experience of many cities in Western Europe. We see global equities to continue its path to recovery as COVID-19 uncertainties abate. However, we anticipate the 2020 U.S. federal election and geopolitical tension between the U.S. and China to be potential sources of volatility heading into the second half of 2020.

Portfolio Review

During the first half of 2020, global equities saw both a swift sell-off and a record rebound due to a COVID-19 induced pandemic and oil price war. Brompton Global Dividend Growth ETF (the "Fund") was down 10.9%. This compares to the MSCI World Index, which was down 5.5%.

The Fund benefited from its underweight position in Consumer Staples and Communication Services. We remain cautious on both sectors. Within the Consumer Staples complex we pivot toward grocery stores whose business remain uninterrupted as they are typically deemed essential during the pandemic. As for Communication Services, competitive pressure remains at elevated levels in Europe, Canada and the U.S. We remain cognizant to these risks and will continue to monitor their impact.

Offsetting some of the gains from our Consumer Staples and Communication Services calls were our overweight positions in Industrials and Financials. Both the Industrials and Financials sectors were heavily impacted by COVID-19. Within the Industrials sector, airlines and leisure stocks bore the brunt of COVID-19 impact as nations closed borders and discouraged travelling. We believe toll road traffic will be the first to recover within the transportation segment and construction activities are set to recover as cities begin to reopen. Financials also underperformed during the quarter due to expectations of net interest margin compression following policy rate cuts in North America and persistently negative rates in Europe. We think large banks including Citigroup, JPMorgan and Bank of America that have strong balance sheet positions are positioned to navigate the low interest environment better than their peers.

We have a positive view on Health Care, Utilities and Real Estate. We currently hold several high-quality healthcare companies in our portfolio that are working towards a treatment for COVID-19 including Sanofi and Medtronic, which manufactures medical ventilators used in the treatment of COVID-19. We believe market sentiment is heavily driven by the prospect of a vaccine and that Health Care companies will lead the economy out of this pandemic. Utilities and Real Estate sectors exhibit defensive qualities and are relatively more immune to the impact of COVID-19. The prospect of a green stimulus bill and the unique ability for utilities to recoup COVID related costs bode well for our current holdings. Record low interest rates should support both sectors and Prologis, a leading industrials REIT, should continue to benefit from a sustainable surge in e-commerce demand as more tenants expand their warehouse footprint to meet the needs of their end consumers.

Along side the market rebound in the second quarter, we increased positions in Consumer Discretionary, Materials and Information Technology and trimmed some Health Care positions while remaining overweight the sector. Information Technology has led the swift recovery in global equities as the sector benefits from a surge in demand for remote access tools given COVID-19 related confinement measures. Health care has enjoyed a healthy rally at the beginning of the rebound and weakened relatively speaking toward the end of the quarter as investors price in the possibility of a second wave.

Laura Lau, SVP & CIO

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Annual Compound Returns[1]	1-YR	Since Inception[2]
Brompton Global Dividend Growth ETF	(4.5%)	0.4%
MSCI World Index	3.4%	5.7%

[1] Returns are for the periods ended June 30, 2020. The table shows the Fund's compound returns for each period indicated compared with the MSCI World Index ("MSCI Index"). The MSCI Index captures large and mid cap representation across 23 Developed Markets countries. The MSCI Index covers approximately 85% of the free float-adjusted market capitalization in each country. The Fund invests in at least 20 global dividend growth companies with market capitalization of at least $10 billion. It is therefore not expected the Fund's performance will mirror that of the MSCI Index which has a more diversified portfolio. Further, the MSCI Index 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.

[2] Inception Date October 17, 2018.

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