Brompton Global Dividend Growth ETF (TSX: BDIV)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2020

Global Markets Review

Improving business sentiment, the signing of a phase one U.S- China trade deal and record low employment rates pushed global equity markets to new highs at the beginning of Q1 2020 while the global spread of COVID-19 caused a sharp reversal in the second half of the quarter. COVID-19 has impacted all segments of capital markets. Equity markets around the globe saw sharp sell offs as countries went into lockdown mode in an effort to contain the outbreak. Within commodities, oil prices plunged due to a combination of a COVID-19 inflicted demand shock and an OPEC+ driven oversupply. In the fixed income and currency markets, government bond yields fell and the US dollar strengthened as investors sought safe haven investments.

Both North American and European equity performance were severely impacted by the pandemic as investors rushed to price in a global economic slowdown. The MSCI World Index decreased 20.9% led by losses from the Energy sector, which declined 44.6% during the quarter, while Healthcare was the best performing sector, outperforming the MSCI World Index by 9.6%. The U.S, Spain, Italy, Germany, France and the U.K are currently the top six countries with most confirmed cases of COVID-19. In North America, the S&P 500 was down 19.6%, while the S&P/TSX Composite was down 20.9%. Information Technology was the best performing sector and Energy was the worst performing sector for both indices. In Europe, the STOXX 600 was down 22.5% for the quarter, led by Spain and Italy, where the IBEX 35 and the FTSE MIB were down 28.6% and 27.2%, respectively. France's CAC 40 lost 26.1% and Germany's DAX Index declined 25.0%, while U.K. and Switzerland equities also finished the quarter in negative territory as the FTSE 100 returned -24.0% and the SMI returned -11.0%.

Equity market performance during the first quarter of 2020 can be dissected into two distinct time frames, namely a period prior to the pandemic and one after the outbreak. 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; this 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. The first case of COVID-19 was reported in Wuhan, China in December 2019, at which time equity markets in North America and Europe continued their strength, as investors believe COVID-19 to be mostly confined to Asia. On January 21st, 2020, the first case of COVID-19 was reported in the United States and the virus started to make its way around the globe. Countries around the world took extreme measures including shutting down borders and implementing quarantine to combat the spread of the virus. On March 12th, the World Health Organization declared COVID-19 outbreak a pandemic. At around the same time in March, an oil-price war began between Saudi Arabia and Russia after the latter refused to reduce its oil production to support prices. Saudi Arabia responded by cutting prices aggressively and threatening to increase output by more than 20% to 12 million barrels per day. Brent crude, the global benchmark, plunged the most in more than a decade, falling to levels not seen in nearly 20 years. The S&P 500 ended its eleven-year bull run and officially entered into bear market territory on March 11th, the fastest market decline from all-time highs in history. Post the COVID-19 outbreak, cyclical sectors including Energy, Financials and Industrials were among the worst performing sectors while defensive sectors including Health Care, Utilities and Communication Services outperformed.

A pandemic driven bear market, similar to other bear markets in history, have characteristics of heightened levels of volatility in equity markets and elevated correlations between asset classes. However, unlike previous bear markets, the coronavirus outbreak has caused both demand destruction and supply constraints. Quarantine measures curtails mobility, which in turn reduces consumer demand and labor supply; regional lockdowns also spill over to disrupt the global supply chain. The U.S. reported a record level of new jobless claims in March. Hospitality, retail, energy and airline industries were the hardest hit due to confinement and travel restrictions, while Communication Services and Information Technology were the bright spots as work from home trends pushed for a surge in bandwidth demand and IT usage. Health Care is also a sector heavily relied upon during this time for a cure to end the pandemic.

Effective policies are essential to cushion the economic impact. Policy makers around the world acted swiftly to launch an unprecedented range of emergency programs. In the U.S., the Federal Reserve has taken the following monetary measure. First, on February 28th, the Federal Reserve made an unusual move in-between policy meetings to cut interest rates by 50bps from the previous level of 1.50%-1.75% to 1.00%-1.25%, and then again by 100bps during the March 15th policy meeting to 0%-0.25%. It took the Federal Reserve two weeks to cut interest rates to zero compared to 15 months during the 2008 crisis. Second, it restarted its asset-purchasing program with no limit on potential purchases. Third, it provided US$500 billion of credit through new programs to provide liquidity to various segments of the market, such as the primary and secondary corporate credit segment, the money market mutual fund segment, the commercial paper segment and the primary dealer segment. Recently, it also established a US$2.3 trillion lending program to assist households and employers of all sizes. In terms of fiscal measures, the U.S. congress has passed major pieces of legislation including a US$2 trillion stimulus (CARES Act) equivalent to 10% of GDP, to address the pandemic in additional to other government spending bills, paid sick leaves, and bailouts for businesses in distress.

In Canada, the Bank of Canada (BoC) cut interest rates by 50bps on three separate occasions in March, lowering the rate to 0.25% to combat the impact of COVID-19 on the economy. The BoC also instituted plans to acquire commercial paper to alleviate strains in short term funding markets, and began acquiring Government of Canada securities in the secondary market at a minimum of pace of CAD$5B per week to address strains in government debt market. Moreover, Canadian Prime Minister Justin Trudeau announced fiscal stimulus amounting to CAD$260 billion of direct support such as wage compensation, child benefit and low-income credit.

European countries also enacted various types of measure to curb the effects of COVID-19. On the monetary policy front, the European Central Bank (ECB) announced unusual policy measures. First, additional longer-term refinancing operations (LTROs) to provide liquidity support to the financial system. Second, more favorable terms to support bank lending. Third, increased bond purchases under existing programs of EUR120 billion. Last, a Pandemic Emergency Purchase Program (PEPP) to buy EUR750 billion of bonds. The PEPP in combination with the existing Asset Purchase Program will allow the ECB to buy around EUR115 billion per month until year-end, significantly exceeding the peak monthly purchase pace under previous programs. The Bank of England (BOE) cut interest rates twice in March, lowering the rate to 0.1%. The BOE also increased its bond purchase program by GBP200 billion. On the fiscal policy front, Germany's fiscal stimulus package amounted to EUR156 billion with support spread across wages, social spending and small business aid. The French government's stimulus program contained EUR45 billion of additional spending and guarantees to support EUR300 billion of lending to businesses. Italy issued a fiscal stimulus package of around EUR15-20 billion in fresh spending and EUR350 billion of loans.

According to the latest World Economic Outlook report issued by the International Monetary Fund (IMF) in April 2020, global gross domestic product is projected to contract 3% this year before rebounding to grow 5.8% next year, assuming this pandemic fades in the second half of 2020. 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 discussed above demonstrate the willingness of policymakers to take extraordinary steps to alleviate stress in the economy. Equity markets are showing signs of confidence; as of April 13th, 2020, the S&P 500 has rallied 25% from its recent trough level on March 23rd. In both the U.S. and Europe, medical data is signaling a flattening inflection rate curve. Should policy makers succeed in achieving their objectives of bridging the economic impact, we believe a portion of economic activity will come back online relatively quickly to help jump start the economic engine.

Portfolio Review

During the first quarter, global equities saw a swift sell-off due to a COVID-19 induced pandemic and oil price war. Brompton Global Dividend Growth ETF (the "Fund") was down 22.7% during Q1 2020. This compares to the MSCI World Index, which was down 20.9%.

The Fund benefited from its underweight position in Energy and Communication Services. We remain cautious on both sectors. Although trading at attractive valuations, energy stocks face demand destruction due to COVID-19 and we believe excess crude supply in the market remains a significant overhang for the sector until OPEC+ reach a meaningful coordinated supply cut deal to stabilize oil prices. 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 Energy 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. While our travel exposed holdings Airbus and International Consolidated Airlines Group underperformed during the period, we believe both stocks are currently oversold and both companies have strong balance sheets to weather the storm. Should confinement measures and travel bans be lifted in the coming months, there could be meaningful upside to their stock prices. Financials also underperformed during the quarter due to expectations of net interest margin compression following policy rate cuts in North America. We think large banks including Citigroup, JPMorgan and Bank of America have strong balance sheet positions 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 Abbvie, as well as Medtronic, who manufactures medical ventilators that are used for 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. Record low interest rates should support both sectors and Prologis, a leading industrials REIT, should benefit from a sustainable surge in e-commerce demand as consumers shift their purchases online amid COVID-19 lockdowns.

In January, we increased positions in Information Technology and Consumer Discretionary to bring them to market weight and trimmed some weight off Real Estate. Information Technology benefits from a surge in demand for remote access tools and streaming services given COVID-19 related confinement measures. Real Estate companies traded at elevated multiples before the outbreak, given the recent selloff and our favorable view of the sector, we continue to monitor the space for attractive entry points.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	**1-YR**	**Since Inception[2]**
Brompton Global Dividend Growth ETF	(13.4%)	(9.0%)
MSCI World Index	(9.8%)	(5.6%)

(1) Returns are for the periods ended March 31, 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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