Brompton Global Dividend Growth ETF (TSX: BDIV)

BROMPTON FUNDS

PORTFOLIO MANAGER COMMENTARY - MARCH 31, 2019

Portfolio Review

Brompton Global Dividend Growth ETF (the "Fund) increased the net asset value per unit from $18.15 to $19.60 during the first quarter of 2019 while paying total distributions of $0.30 per unit. The Fund benefited from particularly strong performance in Cisco Systems, American Tower REIT and Paychex, which were up 25.6%, 24.6% and 24.1%, respectively, while CVS Health and CME Group, declining 17.1% and 12.1%, respectively, partially offset the positive return. Digital transformation drove global data usage demand and network capex which benefited Cisco and American Tower REIT. CME shares rallied on higher equity market volatility at the end of 2018 and declined on tough comparatives in the first quarter of 2019.

The Fund is overweight Health Care, Financials and Real Estate. In the Health Care sector, the Fund owns names that are exposed to secular growth themes in immune-oncology, diabetes and medical devices given an aging global population and increasingly longer life spans. The Fund currently owns Novartis, a pharmaceutical manufacturer focusing on oncology and heart disease that was up 15.6% during the first quarter, and AstraZeneca, a developer of cancer, diabetes and asthma drugs which gained 8.9% during the quarter. We continue to overweight Health Care given the strong product pipelines and high growth potential within the sector that is driven by product innovation and R&D investments; particularly, we see Medical Devices being the subsector with high growth verticals.

We remain overweight in Financials heading into the second quarter of 2019. During the last quarter of 2018, Financials underperformed as a result of a broader market selloff. Consistent with our expectation, the sector bounced back during the first quarter of 2019 as market sentiment improved. Both U.S. banks and life insurers are well capitalized with strong balance sheets. The Fund currently owns a few large U.S. banks as well as U.S. regional banks. At current levels, valuations remain attractive on both a historical and relative basis so we anticipate multiple expansions and continued dividend growth potential.

The Fund is also overweight Real Estate, in particular the tower REITs. Tower REITs are characterized by stable cashflows and long-term contracts. American Tower rallied 24.6% during the quarter and Crown Castle gained 18.9%. We believe strong secular growth from 5G buildouts will drive increased demand from both existing and potential tower tenants. Surging data traffic has also boosted demand for towers, particularly in urban areas, where mobile data usage is accelerating. With their solid pricing power, they should be able to achieve site rental revenue growth and rental sales growth.

The Fund has an underweight position in both the Consumer Discretionary and Consumer Staples sectors. We remain optimistically cautious on the two sectors as on one hand we think rising consumption will continue to benefit the consumer names we hold in the Fund, such as Adidas. U.S. consumer confidence remains at healthy levels and U.S. initial jobless claims decreased to 196,000 in the week ended April 6, 2019 according to the Labor Department, the lowest level since October 1969. Adidas, gained 18.9% during the quarter confirming a buoyant environment for sporting goods globally. Higher home prices and favourable mortgage rates should drive increased renovation demand, which will benefit Home Depot. On the other hand, given the recent rally of luxury stocks we think current valuations are elevated. Moreover, competitions within the Consumers markets will continue to pressure margins. We favor globally recognized brands including Danone and Pepsi which are more immune to competitive threats.

The Fund is underweight Industrials and Information Technology. As for the Industrials sector, while we are underweight the sector generally, we believe tight capacity on the railroads will further benefit railroad companies like Canadian National Railway. Increased investments in double-tracking and in locomotives should position CN well to drive revenue growth and free cash flow. Within the Information Technology sector, we favor companies in the cloud, Internet of things (IoT) spaces as we see secular growth within the sector for years to come. Oracle, being the third largest provider for enterprise software in the globe, and Apple, with a growing presence in IoT are both well positioned to capitalize on the growth trend. Cisco is a global leader in networks with more than 50% market share. The company's growing cloud and security business should allow it to generate healthy momentum, and with that, increased recurring sales and dividend growth.

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