PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

Portfolio Review

Brompton Global Dividend Growth ETF (the "Fund") was launched on October 18, 2018. For the period from the Fund's inception through to the end of the year, the Fund's net asset value declined as global equity markets sold off in the fourth quarter of 2018. The Fund benefitted from strong performance in American Tower Corp and CME, however, these gains were more than offset by underperformance in UPM, Apple and Valero. American Tower Corp had a solid Q3. Wireless network capex is expected to growth by 4% in 2019 and 5G deployments is expected to accelerate in the next few years, thus we think company is best positioned to benefit from this secular trend. CME shares rallied on higher equity market volatility, electronic options trades and increased oil trading during the second half of the year. The company made a $5.4 Billion offer for NEX Group early 2018 which closed on November 2nd, increasing its bank penetration and extending CME's derivative clearance capabilities. We expect the acquisition to be accretive and CME should be able to drive revenue as well as cost synergies over time.

Negative returns from UPM were a drag on the Fund's performance. The company's shares were down due to slowing demand for both softwood and hardwood in 2018 and stock prices were further supressed by pulp price concerns after the release of November European pulp price data in December showing a decline in pulp prices. Moreover, weaker expected pulp demand from China exacerbated the effect. The stock has bounced back in January 2019 but we remain cautious. Apple was impacted by both its cut in revenue guidance due to a slowdown in Chinese demand and the broad technology stock selloff. Valero shares decreased in 2018 mainly due to macro uncertainties and investor malaise in the Energy sector.

The Fund is overweight Financials, Health Care, Real Estate and Materials. In the fourth quarter of 2018, the Financials sector underperformed within a broader market selloff. Macro concerns over slowing global growth and lower mortgage lending expectations sent stocks lower. However, we see the sector bouncing back in 2019 as market sentiment has improved and valuations are attractive. Within the Health Care sector, which outperformed in 2018, the Fund owns names that are exposed to secular growth themes in immuno-oncology, cardiovascular health, diabetes and health care providers given an aging global population and increasingly longer life spans. These investments include UnitedHealth Group, the #1 health insurer in the U.S., as well as Novartis, with a focus on oncology and heart disease, and Sanofi, a cardiovascular, cancer and metabolic disorder drug manufacturer that has rallied in 2018. We continue to overweight Health Care given the high growth potential driven by product innovation and R&D productivity. The Fund is also overweight Real Estate, in particular the tower REITs, as we believe strong secular growth from 5G buildouts will continue to drive returns for American Tower Corp and Crown Castle. Lastly, Nutrien in the Materials sector continues to show strong fundamentals and a solid balance sheet, we think the company has the ability to leverage its retail distribution network to drive earnings increases.

The Fund is underweight Consumer Discretionary, Energy, Industrials, Information Technology and Communication Services. We think rising consumption will continue to benefit the consumer names we hold in the Fund, such as Adidas, and higher home prices should drive increased renovation demand, which will benefit Home Depot. As for the Industrials sector, while we are underweight the sector generally, we believe that strong demand in 2018 and a tight trucking market has created tight capacity on the railroads. Canadian National Railway should benefit from strong demand trends going into 2019 combined with revenue growth supported by pricing power. While we are cautious on the Information Technology given the recent selloff, we favor companies in the cloud, Internet of things (IoT) and autonomous vehicles space as we see secular growth within the sector for years to come. Cisco systems with its growing cloud and security business, Oracle, the third largest provider for enterprise software in the globe, and Apple, with its growing presence in IoT are well positioned to capitalize on this trend.

We are market weight Consumer Staples and Utilities. As market sentiments shift into defensives, our Consumer Staples names PepsiCo and Danone are well positioned to benefit from this trend. We favour globally recognized household brands with global scale as we see those names as being relatively more immune to competitive threats. We see Fortum positioned to benefit from a rising wholesale power prices in the Nordics.

Global Market Review

The global economy continued to perform well in 2018 with real GDP growth of 3.6% as of the latest data point. This was led by the U.S. where tax reform passed in late 2017 boosted growth to 3.0%. Additionally, the unemployment rate sits near multi-decade lows and inflation remains stubbornly low but close to the Fed's target rate of 2%. However, this strength was partially offset by a moderate slowdown in Europe and Emerging Markets as the escalation of the trade war between the U.S. and China and the impact of tariffs had a negative impact on business activity along the global supply chain. Germany, the Euro area's largest economy, saw its economy shrink in the third quarter, while the threat of a hard Brexit also continues to weigh on European economies.

Central bank policies continue to dominate the markets. The Federal Reserve hiked rates four times in 2018 and its policy rate now sits at a target range of 2.25% to 2.50%, which we believe is near the bottom end of most economists' ranges for the neutral rate of about 2.5% to 3.5%. This resulted in rising interest rates across the yield curve for most of the year, before rates declined in the fourth quarter on fears of a global slowdown. The U.S. 10-year yield hit a high of 3.26% in October before falling and closing the year at 2.68%, while the spread between the 10-year and the 2-year hit a post-financial crisis low in December before closing the year at 19 bps.

The Fed also continued with its balance sheet normalization program that began in the fourth quarter of 2017. Through this program, which can also be referred to as Quantitative Tightening (QT), the Fed is shrinking its balance sheet by letting certain maturing assets runoff rather than reinvesting the principal proceeds. We believe that this program is widely misunderstood by many market participants and our view is that QT will not have a negative impact on the economy or markets in 2019.

In Europe, the European Central Bank continued to taper its Quantitative Easing program through to the end of the year when it planned to stop new purchases altogether. However, monetary policy in Europe remains extremely loose and the ECB doesn't have any plans to increase rates or shrink its balance sheet in the near term.

Despite the general strength of the economy, global equity markets experienced a significant uptick in volatility in 2018. After rallying to start the year, equity markets sold off in February before stabilizing in the second and third quarters. However, volatility returned in the fourth quarter as equity markets around the world sold off on fears that the escalating trade war had sparked a global growth slowdown and that the Fed had hiked too far and was going to cause the yield curve to invert, which has historically been a sign of a looming recession.

While stocks experienced a relief rally into the end of the year after the Christmas Eve bottom, the global market finished the year in negative territory as the MSCI World Index declined by 8.2% in 2018. Almost all stock markets and asset classes were down for 2018. In North America, the S&P 500 was down 4.4% after a 20.2% intra year peak to trough decline, while the S&P/TSX Composite was down 8.9% after another tough year in Canadian energy. In Europe, the STOXX 600 was down 10.3% led by Germany, where the DAX was down 18.3%. British equities struggled in the face of Brexit uncertainly with the FTSE 100 down 8.8% for the year, while the CAC 40 in France was down 8.1%.

In terms of global sectors, defensive sectors generally outperformed cyclical sectors for the year, while Utilities, which were up 3.1%, and Health Care, which was up 3.0%, were the only sectors to finish in positive territory. The worst performing sectors were Materials, Financials, Energy and Industrials, all of which finished with double digit losses as fears of a global slowdown had a more significant impact on these areas of the market.

Looking forward, we expect the global economy in 2019 to look much the same as it did in 2018 with global growth in the 3-4% range. U.S. growth is likely to slow in the second half after the benefits of tax reform are fully baked into the economy, but growth is likely to remain above 2% and we expect employment to remain strong with inflation in check. We do not expect the U.S. to enter a recession in 2019. Euro area growth should rebound from the low levels we saw towards the end of 2018 but will likely remain stubbornly sluggish, while Emerging Markets are likely to rebound in the event of a positive resolution to the trade war, which we believe is the most probable outcome. We believe that the Fed is on hold with respect to further interest rate hikes at least until later in 2019 and that they should be able to continue shrinking their balance sheet at a slow pace without disrupting the market, while the ECB is unlikely to hike rates in 2019.

After the selloff in the fourth quarter of 2019, we believe that global equities are attractively valued and, given our positive outlook, represent excellent value for investors.

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